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Royal Commission on Banking and Finance

The Trust Companies Association of Canada

Hearings
held at

Ottawa

Vol.

29

Date.

July 16, 1962.



Official Reporters
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Toronto, Ont.

54 Wellington St. W.
Room 205



Nethercut & Young

Toronto, Ontario

- 3264 -

Ottawa, Ontario,
Monday, July 16, 1962.

ROYAL COMMISSION ON BANKING
AND FINANCE

THE TRUST COMPANIES ASSOCIATION OF CANADA

Hearings held at Ottawa,
Ontario, on Monday,
July 16th, 1962.

Mr. W. Leo Knowlton ----- Vice-President and General
Manager, Canada Permanent

THE COMMISSION

Mr. Walter Egan ----- Vice-President and General
The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario ----- Chairman

Mr. E. F. K. Nelson ----- Director of the
Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. Winslow Benson ----- Vice-President, The National
Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon Hodgson ----- Assistant General Manager,
Montreal Trust Company.

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta
Mr. Jules E. Fox ----- Secretary-Treasurer, The Dominion
Trust Company, Ltd., and Investments
Association.

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec
Mr. W. P. Lough ----- President, Loughheed Associates

Mr. J. Pambrake ----- President, Royal Trust Company.

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia
Mr. G. M. Wells ----- President and General
Manager, Royal Trust Company.

Dr. W. A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario
Mr. Marcel Fillion ----- President and General Manager,
General du Canada.

Mr. J. G. Hungert ----- President, National Trust Company.

Mr. D. E. Kerlin ----- President, Montreal Trust
Company

Mr. E. T. Godwin, Q.C. ----- General Manager, Crown Trust
Company, Toronto

Mr. H. A. Hampson ----- Secretary

Mr. Gilles Mercure ----- President and General Manager,
The Canada Trust Company. ----- Joint Secretary

Mr. R. G. Thomas, Q.C. ----- General Manager, Victoria and
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Minister of Agriculture
Ottawa, Ontario

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SUBMISSION OF

THE TRUST COMPANIES ASSOCIATION OF CANADA

APPEARANCES

- | | |
|----------------------------|--|
| Mr. W. Leo Knowlton | - Vice-President and General Manager, Canada Permanent Toronto General Trust Company; President of the Association. |
| Mr. Walter Bean | - Vice-President and General Manager, The Waterloo Trust and Savings Company; Immediate Past President of the Association. |
| Mr. E. F. K. Nelson | - Executive Director of the Association. |
| Mr. Winslow Benson | - Vice-President, The National Trust Company of Toronto. |
| Mr. Gordon Hodgson | - Assistant General Manager, Montreal Trust Company. |
| Mr. Jules E. Fortin | - Secretary-Treasurer, The Dominion Mortgage and Investments Association. |
| Mr. W. F. Lougheed | - William Lougheed Associates |
| Mr. J. Pembroke | - President, Royal Trust Company. |
| Mr. G. M. Wells | - Vice-President and General Manager, Royal Trust Company. |
| Mr. Marcel Faribault | - President and General Manager, Trust General du Canada. |
| Mr. J. G. Hungerford, Q.C. | - President, National Trust Company. |
| Mr. D. E. Kerlin | - President, Montreal Trust Company |
| Mr. E. T. Godwin, Q.C. | - General Manager, Crown Trust Company, Toronto. |
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Mr. W. Leo Knowlton	Vice-President and General Manager, Canada Permanent Toronto General Trust Company; President of the Association.
Mr. [illegible]	Vice-President and General Manager, The Waterloo Trust and Savings Company; Immediate Past President of the Association.
Mr. [illegible]	Executive Director of the [illegible]
Mr. [illegible]	Vice-President, The National Trust Company of Toronto.
Mr. [illegible]	Montreal Trust Company.
Mr. [illegible]	Montgage and Investments
Mr. W. F. Longnead	President, Royal Trust Company.
Mr. J. Pennoque	Vice-President and General Manager, Royal Trust Company.
Mr. Marcel Hamblanc	President and General Manager, Trust General du Canada.
Mr. J. G. Hungerford, C.C.	President, National Trust Company.
Mr. D. E. Kerlin	President, Montreal Trust Company.
Mr. [illegible]	General Manager, Crown Trust Company, Toronto.
Mr. [illegible]	President and General Manager, The Canada Trust Company.
Mr. [illegible]	General Manager, Victoria and Grey Trust Company.



1 Mr. W. P. Gregory, Q.C. - President and General Manager,
2 British Trust Corporation.

5 -----
6
7 THE CHAIRMAN: Call the meeting to order.

8 I wish to express the thanks of the Commission
9 for the very comprehensive brief that has been sub-
10 mitted by your Association. It will be of very great
11 assistance to the Commission and it raises many questions
12 that we shall no doubt wish to pursue in the questioning
13 that will duly come.

14 I also wish to mention that we are very
15 much obliged to you particularly, Mr. Bean, for
16 arranging for us to obtain a survey of the Trust
17 Companies Estates, Trust and Agencies Accounts, and
18 also wish to thank the National Trust Company and
19 the Montreal Trust Company *and Royal Bank Co.* for undertaking to provide
20 us with necessary data.

21 This whole problem is one of considerable
22 magnitude and the Commission much appreciates the
23 efforts which these companies are making on our behalf.
24 No doubt the work that has been done in preparing this
25 submission and the information that has been assembled
26 for us will be a very great contribution to the
27 work of the Commission.

28 I understand that Mr. Bean, the immediate
29 past president of the Trust Companies Association of
30 Canada will open the proceedings on behalf of the Trust



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1 Companies Association of Canada. It is not necessary
2 to stand, Mr. Bean, unless you prefer.

3 MR. BEAN: Before making a few, very short,
4 remarks about the brief which The Trust Companies
5 Association of Canada has already submitted to the
6 Commission, I should like to introduce to you those
7 of us who are officially representing the Association
8 at this hearing.

9 Firstly, as President of the Association
10 during most of the period during which the brief was
11 prepared, I, Walter Bean, Vice-President and General
12 Manager of The Waterloo Trust and Savings Company of
13 Kitchener, Ontario, have been prevailed upon to lead
14 this group. With me are Mr. Winslow Benson, Vice-
15 President of The National Trust Company of Toronto and
16 Mr. Gordon Hodgson, Assistant General Manager of the
17 Montreal Trust Company of Montreal, both of whom have
18 been deeply involved in the preparation of the brief.
19 In addition there are present with me Mr. W. Leo
20 Knowlton, Vice-President and General Manager of the
21 Canada Permanent Toronto General Trust Company, Toronto,
22 President of the Association, Mr. E. F. K. Nelson,
23 Executive Director of the Association, Mr. Jules E.
24 Fortin, Secretary-Treasurer of The Dominion Mortgage and
25 Investments Association and Mr. W. F. Lougheed of
26 William Lougheed Associates, consulting economist to
27 the Association for this brief. Also present this
28 morning are a number of senior officers of Trust Companies
29 who, I am sure, will offer comment if required, and
30 with your indulgence it may be necessary for me to call



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1 upon some of them during the course of the hearing.

2 As the Commission has already had an
3 opportunity of reading both the summary and the brief
4 itself, together with its appendices, unless specially
5 requested I do not propose to read it here. You will
6 have seen that we have done our best to describe in
7 detail the operations of the companies engaged in trust
8 business in Canada, and to present the views of what
9 are a widely varying group of individual companies. We
10 think that the work of this Commission is most important
11 to the future of Canada, and Canadians, and we have
12 endeavoured to cooperate with you and your Secretariat
13 to the greatest possible extent. Much work has been
14 done in what might be termed virgin territory, and some
15 of the analysis has never been attempted before. This
16 work will undoubtedly have been of assistance, not only
17 to the Commission, but to the trust business itself.

18 In spite of the fact that the extent
19 and particularly the dollar volume of trust business
20 has only in recent years been sufficiently great
21 to merit public attention, it should be noted at the
22 outset, that the various companies have been doing
23 essentially the same things and, almost without exception,
24 performed the same functions, since late in the nineteenth
25 century. This may well be a surprise to some but it
26 is nevertheless true. Trust business is not new,
27 although its acceptance by the public has increased
28 greatly, through changing economic conditions, more
29 aggressive promotion and perhaps, most importantly, a
30 greater public recognition of the value of the services

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1 performed.

2 One of the problems encountered in the
3 preparation of this brief has been that of presenting
4 a coherent picture of the industry's practices, problems
5 and beliefs, acceptable to substantially all of the
6 member companies of the Association. While all in the
7 same business, no two companies are exactly alike and
8 there are wide variations between many of them. As
9 a result, their interests and opinions, based on individual
10 experience, vary widely. The opinions expressed in
11 the brief are those of the Association and are generally
12 acceptable to all member companies. However, there
13 are some companies who differ in the degree of importance
14 attached to certain of the views expressed and while not
15 wishing to submit separate briefs, they may wish to speak
16 to these points as the occasion arises. In addition
17 you have already received a submission from Mr. Marcel
18 Faribault, President and General Manager of the General
19 Trust of Canada who is here with us today. In answering
20 your questions I can only speak with any certainty for
21 my own company, but so far as is possible will attempt
22 to express the views of member companies. This also
23 applies with respect to replies made by the others
24 directly associated in the presentation of this brief and
25 more particularly to those of Mr. Lougheed which will be
26 his own views. It would be appreciated if in the
27 first instance questions were directed to me and I will
28 either attempt an answer or call upon one of our group
29 to do so.

30 I should like to add a few remarks about the



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1 study for the Association by the University of Western
2 Ontario which was submitted as an Appendix to our brief.
3 This is an objective survey of trust companies' operations
4 and their effect on the economic life of the Nation.
5 The Association does not necessarily endorse the opinions
6 expressed in the study which was made in order to have an
7 independent and outside view of the industry. It was
8 completed very recently and while all its aspects and
9 implications have not as yet been fully considered, it
10 was decided to submit it as part of the brief in the
11 hope that it would provide information and views which
12 would prove valuable to the Commission. I am not
13 attempting in any way to disassociate the Association
14 from the excellent work done by the University but
15 I do wish to stress that any views expressed are not
16 necessarily those of the Association.

17 THE CHAIRMAN: Thank you, Mr. Bean.

18 Questions?

19 COMMISSIONER HARROLD: Mr. Chairman, perhaps
20 I could start the question period here. You mention
21 legislation and supervision. In your recommendations
22 you refer to the fact that the trust companies have
23 no specific recommendations along this line but I do
24 notice there are some that have to do with legislation
25 and supervision both federal and provincial. Legislation
26 and supervision, I believe, are discussed in paragraph
27 106 and 107 of the first publication.

28 The first question I would like to ask,
29 you suggest there are 28 to 30 members of your Association
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1 with the trust companies as far as legislation, et
2 cetera, is concerned, but there are some of the trust
3 companies that are incorporated under federal legislation
4 and also registered federally. How many of the 30
5 are in this category?

6 MR. BEAN: I believe the answer is four.
7 They, I think, are the Canada Trust, Guaranty Trust,
8 the Canada Permanent Toronto General Trust and the
9 Chartered Trust.

10 COMMISSIONER HARROLD: You indicated that
11 you would like to see a little more uniformity in
12 regard to legislation or regulation in the provinces.
13 There is not too much said about the federal super-
14 intendent of insurance. Who is in fact in a position
15 to answer several questions on how this is conducted
16 or maybe one or two others as to what the procedure
17 is et cetera as far as the federal superintendent
18 of insurance is concerned?

19 MR. BEAN: You mean on questions of procedure
20 and inspection & supervision?

21 COMMISSIONER HARROLD: Well, just show
22 how it is conducted in relationship to the provincial
23 regulation.

24 MR. BEAN: I think for that question you
25 had better have some person who has a direct association
26 with the federal superintendent. A company such as
27 our own has no association whatever.

28 COMMISSIONER HARROLD: Is there any advantage
29 in a federal charter as compared to a provincial charter?

30 MR. BEAN: I am afraid the answer is going



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1 to be from the provincial companies, probably there is
2 not and the federally incorporated companies would
3 say yes. Would you like to speak on that, Mr. Knowlton?
4 Mr. Knowlton's is a federally incorporated company.

5 MR. KNOWLTON: I do not think there is
6 any direct advantage. I think it is something that
7 occurred several years ago with the incorporation of
8 trust companies, but I do not see any direct advantage
9 of being a federally incorporated company.

10 COMMISSIONER HARROLD: There is some
11 supervision by the federal superintendent, is there?

12 MR. KNOWLTON: Very much so. In the
13 superintendent's office they have an inspection staff
14 and we are subject to spot inspections by the super-
15 intendent's office at the year end.

16 COMMISSIONER HARROLD: Would you say the
17 supervision is very close?

18 MR. KNOWLTON: I would say it is very close
19 and very comprehensive.

20 COMMISSIONER HARROLD: Do you find any
21 difficulties arising from time to time?

22 MR. KNOWLTON: Well, we all have differences
23 of opinion at times but they have always been mutually
24 satisfactorily settled.

25 COMMISSIONER HARROLD: You suggest that
26 there should be some revision as between federal
27 supervision as to the trust companies different
28 operations such as the guarantee operations and the
29 company operations as separate from the other operations?

30 MR. KNOWLTON: I would not think so, sir, no.



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1 COMMISSIONER HARROLD: What about self
2 government of the industry? That is mentioned in
3 paragraph 170, I believe. It says there that the
4 powers of self regulation and self government would
5 be very helpful. If there is not too much regulation
6 and self government what is the reason for that?

7 MR. BEAN: Well, I think there may be some
8 misunderstanding as to the meaning of that section.
9 What we are trying to point out there is that we have
10 no constitutional powers of self government.

11 THE CHAIRMAN: Excuse me, there are several
12 people in the audience who would like to hear what
13 is going on and I trust that those present will speak
14 a little more loudly so that they may be heard.

15 MR. BEAN: Mr. Chairman, as I say, the
16 point in that section, I think, is that we have no
17 constitutional powers of self government as an association.
18 I do not believe that any of us envisage that it would
19 be possible to replace the governing acts which now
20 exist in the various provinces or the Dominion to
21 regulate the industry. I do not think any of us
22 feel that that would either desirable from our own
23 standpoint or from the standpoint of the public at
24 large but there is a certain amount of consultation
25 naturally within the Association and one of the objects
26 of the Association is to preserve the highest code
27 of ethics, as it were, within the industry.

28 COMMISSIONER LEMAN: Does not the brief
29 make some point about the desirability of uniformity
30 of regulation in the industry?

COMMISSIONER HAROLD: What about self

MR. BEAN: Well, I think there may be some

THE CHAIRMAN: Excuse me, there are several

MR. BEAN: Mr. Chairman, as I say, the



1 MR. BEAN: Yes, I agree very much. And
2 the suggestion is made in the brief in the recommendations --
3 well, that we hope that it would be possible somehow or
4 other and admittedly we are forgetting about consti-
5 tutional problems here and working in a complete state
6 of desirability and perhaps of utopia, but it would
7 be much more desirable from the industry's standpoint
8 and companies operating branches across Canada if they
9 could all operate under the same set of rules. It
10 is a very difficult thing to operate under one set
11 of rules in the Maritime provinces and another set
12 in British Columbia, et cetera, and that is the
13 recommendation that is made, that we would hope that
14 perhaps as they have in the insurance field certain
15 portions of the legislation concerning insurance there
16 might be some method whereby a ^{uniform} new type of legislation
17 could be inaugurated on which we could act.

18 COMMISSIONER LEMAN: We do not want to
19 get involved in constitutional problems here. Let
20 us assume it would be possible that your Association
21 would welcome a process under which the provinces would
22 voluntarily leave it to the federal people to provide
23 the necessary uniform law?

24 MR. BEAN: From a practical standpoint of
25 the industry it would be better if there were some
26 form of uniformity and I do not think it matters very
27 much which way it is done, frankly. The power is
28 there any time. The provinces could do that if they
29 wished to.

30 COMMISSIONER BROWN: You mentioned the insurance



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1 companies. There is a division there. The federal
2 authority supervises certain portions and the provincial
3 others. Do you have the same suggestion for trust
4 companies?

5 MR. BEAN: As a rule in the case of the
6 insurance companies they are regulated as to policies,
7 et cetera, but not all portions of their business.

8 COMMISSIONER BROWN: You think something
9 along this line would be necessary for the trust
10 companies?

11 MR. BEAN: I am sorry, I do not quite
12 understand your question in that respect. It is more
13 or less a similar situation except that there are
14 a great many more extra conditions under the federal
15 jurisdiction than provincial. There are very few
16 provincial life insurance companies now.

17 COMMISSIONER GIBSON: Can you give us a
18 little background of how the federal supervision of
19 trust companies developed? Is there someone who
20 can tell us that?

21 MR. BEAN: Mr. Fortin can answer that.
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companies. There is a division there. The federal authority supervises certain portions and the provincial others. Do you have the same suggestion for trust

MR. BEAN: As a rule in the case of the insurance companies they are regulated as to policies, et cetera, but not all portions of their business. COMMISSIONER BROWN: You think something along this line would be necessary for the trust

MR. BEAN: I am sorry, I do not quite understand your question in that respect. It is more or less a similar situation except that there are a great many more extra conditions under the federal jurisdiction than provincial. There are very few provincial life insurance companies now.

COMMISSIONER GIBSON: Can you give us a little background of how the federal supervision of trust companies developed? Is there someone who can tell us that?

MR. BEAN: Mr. Fortin can answer that.



1 MR. FORTIN: Prior to 1914, which was the
2 first year that the Dominion Superintendent of Insurance
3 was given the power of supervision, there was an amount
4 of supervision of the then building loan societies and
5 loan companies by the Department of Finance. In 1914
6 the Trust Companies Act of Canada and the Loan Companies
7 Act of Canada were enacted.

8 The main difference between the Dominion
9 statute and the provincial statutes, as far as corporate
10 powers are concerned, is that the Dominion legislation
11 is somewhat more restrictive in the nature of the
12 investments that can be made. The Dominion chartered
13 companies get their corporate powers from Ottawa.

14 One of the conditions is that they be governed
15 by the model act which spells out what these loan and
16 trust companies may do. One of the conditions is the
17 living up to the legislation by these loan and trust
18 companies.

19 The Dominion loan companies operate in the
20 provinces by a system of licensing or registration. In
21 other words the mere fact that one has a Dominion charter
22 does not entitle one as such to operate in any one
23 province. They must conform to the more restrictive
24 of the two sets of powers. While you may have the
25 corporate power under the Dominion legislation you may
26 not exercise it in a province unless that province
27 so allows. That also applies to provincially chartered
28 companies. The Ontario chartered company is given
29 its corporate powers by Ontario but it may only use
30 those which are permitted to it say by the Province of

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1 British Columbia. Likewise in respect to Quebec.

2 The Superintendent of Insurance in Ottawa
3 makes very close examination of the solvency position
4 of the trust companies, and very voluminous reports
5 are required of those companies by the Superintendent.
6 He has a system of inspection where their records are
7 inspected. He values their assets.

8 Ontario, of the provinces, is the province
9 where there is the most stringent provincial supervision,
10 where the province similarly inspects the Ontario chartered
11 companies, and those companies incorporated elsewhere
12 but operating in Ontario are subject to the supervision
13 of Ontario, and have to accept the supervision of the
14 Dominion department in the case of Dominion incorporation.

15 In the process a trust company has to conform
16 itself to the various sets of rules in the various
17 provinces in which it operates, so there is to that
18 extent a question of uniformity of rules and regulations.
19 So that being in Ontario, or the Dominion, or Quebec
20 incorporation you have to pocket your operations and
21 say that this one belongs to Alberta, this one to
22 Manitoba, etc.

23 In respect to the trustee position, the same
24 applies to trustee acts. There are differences between
25 the investments permitted by legislation to trustees.
26 In respect to the Dominion companies there is no
27 legislation applying to the investment of trust funds,
28 estates and the like, that being a particular provincial
29 matter. All the Dominion Act does in this regard is
30 to say that you must deal with trust funds as is permitted



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matter. All the Dominion Act does in this regard is

to say that the trust funds are to be invested



1 in the province in which the trust is administered.

2 Generally that is the picture across the
3 country.

4 COMMISSIONER GIBSON: Being a Dominion incorporated
5 company does not necessarily save any work or carry any
6 more advantages over being, let us say, an Ontario
7 or Quebec incorporated company?

8 MR. FORTIN: It encourages a little more.
9 You have to satisfy the Dominion Superintendent as
10 well as the provincial Superintendent in the province
11 in which you operate.

12 MR. BEAN: It amounts to there being one more
13 jurisdiction of responsibility.

14 COMMISSIONER GIBSON: Yes. What are the
15 advantages then?

16 MR. BEAN: Again there are differences of
17 opinion.

18 COMMISSIONER GIBSON: I know some of you
19 do not think there are any, but some people must think
20 there are real advantages.

21 COMMISSIONER LEMAN: This is a matter in respect
22 to which we have the dissenting brief. Perhaps the
23 dissenter would express his thoughts on this matter.

24 MR. FARIBAULT: I do not think there is any
25 advantage to a Dominion incorporation. I think there
26 are only disadvantages involved.

27 The only reason why the federal government went
28 into that position was in consequence of the general
29 jurisprudence and decisions of the courts regarding
30 the creation of companies. One must realize trust



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1 companies were incorporated under provincial charter
2 because there happened to be no general act in the
3 provinces. . . . When the federal government did pass
4 a general act, there was a general trend toward the
5 creation of federal companies. Some of them got
6 incorporation by the federal act or under the general
7 federal statute. This did not prove to be very effective
8 on account of the actual jurisdiction of the provinces
9 in respect to trusts and the trustees aspect of the
10 business.

11 The supposed advantage of being about to do
12 business in each and every of the provinces actually
13 was brought to practically nothing.

14 Then there is the question of the Mor'main
15 statutes which proved particularly effective in respect
16 to the creation of different companies under federal
17 statute.

18 Actually the only reason I can see why there
19 could be another jurisdiction would be in respect to
20 the matter of some precise activity which fell within
21 the federal field. Otherwise I see no advantage at all.
22 I do not think there are any.

23 COMMISSIONER GIBSON: Is there no advantage
24 to be gained by unified supervision? I agree it is
25 difficult under the division of responsibility in
26 respect to the constitution. You see, you have a
27 superintendent of insurance, as I understand it, who
28 takes interest in respect to insurance companies and
29 trust and loan companies. There is some effort to get
30 a unified approach as between the variety of finance



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1 institutions here so far as rules and supervision is
2 concerned.

3 MR. FARIBAULT: I believe this is the
4 practical argument for the maintenance of supervision
5 by the Superintendent of Insurance in the matter of
6 insurance, but all the other arguments must fall in
7 the case of insurance on account of the decisions of
8 the courts.

9 Actually there are practical advantages to
10 uniform supervision if it were related merely to
11 some such activity as one could point to, but it is
12 impossible to supervise a trust agency through a federal
13 agency. This must stay within the limits of the province.
14 So, if you took several activities of the trust companies,
15 you are probably led to the conclusion that one only of
16 their activities can be so supervised.

17 First there is the question of their solvency
18 and then the question of their deposits. These are two
19 things which do not actually relate to a provincial
20 jurisdiction or to any provincial law. This is a
21 matter of either mathematics or monetary policy, if
22 you wish, although I would dissent from that. Outside
23 of that I do not think there are any advantages.

24 It is easier for companies that do business
25 across Canada to be supervised by one single authority.
26 Actually the courts have, in my view, practically decided
27 that it would be unconstitutional to do so in the matter
28 of insurance. The practical advantages as such of
29 supervision of federal and provincial companies still
30 continue.

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MR. TARTAGLIA: I believe this is the practical argument for the maintenance of supervision by the Superintendent of Insurance in the matter of insurance, but all the other arguments must fall in the case of insurance on account of the decisions of the courts.

Actually there are practical advantages to uniform supervision if it were related merely to some such activity as one could point to, but it is impossible to supervise a trust agency through a Federal agency. This must stay within the limits of the province. So, if you took several activities of the trust companies, you are probably led to the conclusion that one only of their activities can be so supervised.

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1 If I were to express a personal opinion
2 I would say this is a matter which has been left in
3 abeyance for too long. Constitutionally I would say
4 that until the constitution is revised or there is
5 authority for the provinces to delegate this to the
6 federal government, this would remain a moot point and
7 a point of contention.

8 John Stewart Mills used to say that the
9 main activity of the federal government was in the
10 field of statistics. I think a good idea and what
11 I would do if I were Prime Minister of Canada, would
12 be to constitute a ministry of federal-provincial
13 affairs. The minister would not be in the house, but
14 in the Senate, and he would call the provinces together
15 to try to get some kind of uniformity through some
16 delegation of power.

17 COMMISSIONER BROWN: Mr. Faribault has
18 touched on a point I was trying to bring out and that
19 is was there some division of their activities that
20 could be more efficient if under federal jurisdiction.
21 Obviously, estates, trusts and agencies are going to
22 be completely under provincial jurisdiction, but would
23 it be a good or bad thing to suggest having such
24 operations as the deposit business and guarantee
25 investment certificates and so forth under federal
26 jurisdiction?

27 MR. BEAN: Speaking fairly personal^{ly} in this
28 regard, I think it would be an excellent thing. I
29 think there is such wide variation now as between
30 provinces, and as the brief suggests -- I do not know



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regard, I think it would be an excellent thing. I think there is such wide variation now as between provinces, and as the price suggests -- I do not know



1 whether it says completely or not -- we would welcome
2 in certain provinces a stronger regulating body than
3 exists. We think it would be a good thing for the
4 protection of everyone concerned as well as a good
5 thing for the industry if there was some such thing
6 in existence as suggested.

7 COMMISSIONER GIBSON: Would any of the
8 representatives of Dominion chartered companies care
9 to express a view in regard to this general question?

10 MR. KNOWLTON: I do not think it would
11 affect us. We are under that jurisdiction now. We
12 are policed by the superintendent of insurance.

13 COMMISSIONER GIBSON: But you are satisfied
14 with that?

15 MR. KNOWLTON: Speaking personally we are
16 satisfied with it. Mr. Taylor could perhaps add to that.

17 MR. TAYLOR: Mr. Chairman, speaking for
18 our own company, we too are satisfied. We have lived
19 with nothing else and we are happy with it. I think
20 the important thing is uniformity. I think the more
21 that can be done in respect to uniformity in the
22 whole picture is important, as Mr. Fortin has said.
23 We are now in the position where the lesser, or the
24 greater, rather, of the two sets of restrictions
25 applies in any province in which we operate. If
26 we could have uniformity so that the majority of
27 provinces have the same sets of ground rules it would,
28 without any questions, reduce the confusion. Apart
29 from the importance of uniformity we are happy with
30 the superintendent of insurance and the general atmos-



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1 phere in which we operate.

2 COMMISSIONER GIBSON: Have you thought of
3 the possibility of having specialists in each area
4 on a board of supervision? When we were talking
5 with the insurance people the thought was raised, I
6 think perhaps by a member of the Commission, as to
7 the possibility of setting up a small board for
8 supervision composed of an individual who is expert
9 in the insurance field, an individual expert in the
10 banking field and another in respect to trust companies,
11 and so on, so as to bring it all together. Have
12 you thought of this kind of an approach at all, thinking
13 strictly in terms of what the federal government can
14 do, of course?

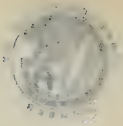
15 MR. TAYLOR: No, Mr. Gibson, I must say
16 that I have not thought of that. It certainly has
17 a logical tone to it. That is something to my knowledge
18 that has not been thought about.

19 COMMISSIONER GIBSON: Does it make any
20 difference to you being under the superintendent of
21 insurance? Is he sufficiently expert in respect to
22 trust companies?

23 MR. TAYLOR: He is entirely conversant with
24 all phases of our operation. As Mr. Knowlton has said,
25 supervision is rather a continuing or annual thing
26 and very comprehensive.

27 COMMISSIONER GIBSON: We have heard on all
28 sides that it is very good.

29 MR. TAYLOR: I do not think to my knowledge
30 that has been given the departmentalizing approach, as



Q Now in what way is it different?

A Yes, I think so. Have you thought of

the possibility of having specialists in each area

and a board of supervisors?

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1 you have suggested.

2 COMMISSIONER GIBSON: I did not suggest it,
3 I just tried it out on you.

4 MR. FORTIN: If I may supplement what Mr.
5 Taylor has said, the superintendent of insurance in
6 Ottawa has quite a staff of able people and I can
7 assure that in negotiating with him in respect to
8 various requests one does not get by easily. This
9 also applies to the Ontario superintendent of insurance
10 and the registrar of trust corporations. When we
11 are called into these offices we must prove our points.
12 To my way of thinking they are very able people. I
13 think personally that the addition of one or two
14 more would really add nothing but a little more
15 difficulty and a little more expense in the process.

16 COMMISSIONER HARROLD: Is this not the only
17 way you can get uniformity? That is by the provinces
18 delegating more of the supervision to the federal
19 authority?

20 MR. BEAN: I think, Mr. Harrold, you would
21 get uniformity as to operation and so on by having
22 uniformity of the acts in all the provinces. I think
23 you would get uniformity all right, but that does not
24 do away with the other problem which Mr. Gibson has
25 been discussing. That is the one of supervision.
26 You would still be under multiple supervision and
27 that sort of thing. You could achieve the first
28 objective by having what we have been suggesting.
29 If we could get at least that far we could operate
30 under the same rules although the enforcement may be



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1 done by several different bodies.

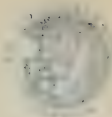
2 MR. FORTIN: I might say that there is a
3 continuing sort of discussion as between supervising
4 authorities. For example, you have a standing
5 committee on return forms. Different accountants
6 have different views as to how you should set these
7 up. Periodically you get an amendment in respect
8 to one, and then somebody upsets it the following year.
9 Gradually we are getting uniformity for example as
10 between the Ontario form of return and the Dominion
11 form. They are not the same but they are getting
12 very close. Since all of the major companies operating
13 in Ontario, whether they are Quebec or Dominion
14 corporations, attempt to cooperate and we are achieving
15 slowly a measure of uniformity in supervision. This
16 is not completely uniform but we are getting that way
17 very slowly. It is a process of arguing out whether
18 it should be done on this side, or done on that side,
19 and it is getting to the point of being uniform.

20 MR. BEAN: On this question of supervision
21 I should point out that in respect to three of the
22 provinces of which you are probably aware as a result
23 of reading the briefs, the federal department does
24 do the inspection and supervision on a delegated basis.

25 COMMISSIONER BROWN: How is that division
26 of responsibility or cooperation as between Quebec
27 and the federal authorities?

28 MR. BEAN: Perhaps Mr. Hodgson would speak
29 to that?

30 MR. HODGSON: As far as the report is con-



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and the federal authorities?

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to that?

MR. HODGSON: As far as the report is con-



1 cerned, the information which is supplied to Ontario
2 is almost exactly the same as that provided to the
3 province of Quebec.

4 MR. FORTIN: Perhaps it should be pointed
5 out that there is a general understanding that the
6 superintendent will accept the inspection by the
7 superintendent or registrar of the provinces. In
8 other words, the Ontario superintendent does not have
9 to supervise the Dominion incorporated companies as
10 a result of an arrangement, if he is satisfied with
11 the quality of the inspection. He accepts the
12 inspection of the other jurisdiction. The Dominion
13 in part does likewise. There is a close relationship
14 in this respect.

15 THE CHAIRMAN: There are regular meetings,
16 are there of the superintendents of insurance throughout
17 the country?

18 MR. FORTIN: Yes, but the Dominion superintendent
19 does not attend as a rule.

20 THE CHAIRMAN: Well, the purpose of the
21 meetings, as I recall it, is to work toward some
22 uniformity, but one of the great problems is to
23 persuade some of the legislatures to make the changes
24 that are recommended. One of the great difficulties
25 is that reference to the extension of investment powers,
26 as I recall it, because in some provinces there are
27 legislatures which regard such proposals with great
28 suspicion and in others there seems to be less concern
29 about it, and they are more in favour of extending
30 the powers.



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out that there is a general understanding that the

superintendent will accept the inspection by the

superintendent or registrar of the provinces. In

other words, the Ontario superintendent does not have

to supervise the Dominion incorporated companies as

a result of an arrangement, if he is satisfied with

the quality of the inspection. He accepts the

inspection of the other jurisdiction. The Dominion

in part does likewise. There is a close relationship

in this respect.

THE CHAIRMAN: That is correct.

are there of the superintendents of insurance throughout

the country?

MR. FORTIN: Yes, but the Dominion superintendent

does not attend as a rule.

THE CHAIRMAN: Well, the purpose of the

meetings, as I recall it, is to work toward some

uniformity, but one of the great problems is to

persuade some of the legislatures to make the changes

that are recommended. One of the great difficulties

is that reference to the extension of investment powers

as I recall it, because in some provinces there are

legislatures which regard such proposals with great

suspicion and in others there seems to be less concern

about it, and they are more in favour of extending



1 MR. FORTIN: The same thing applies, Mr.
2 Chairman, in other areas of supervision. I refer
3 to the matter of uniformity of accounting in public
4 accounts, and the uniformity of return in municipal
5 financing. There are continuing committees operating
6 through the Bureau of Statistics which have been
7 working for years trying to get all the provinces
8 reporting public accounts in the same way. The officials
9 acting on these committees have run into some diffi-
10 culties with their own legislatures and it is a long
11 process to implement any change in these returns.

12 THE CHAIRMAN: The laws with respect to
13 trustee investments are for the most part general.
14 They do not apply to companies, but only apply to
15 individual trustees, and the legislatures are somewhat
16 reluctant to give to the corporations the powers
17 that they would hesitate to give to individual
18 trustees?

19 MR. FORTIN: Yes.
20
21
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23
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THE CHAIRMAN: The same thing applies, Mr.

Chairman, in other areas of supervision. I refer

to the matter of uniformity of accounting in public

utilities, and the uniformity of return in municipal

utilities. There are certain common problems

which the Board of Governors will have to

consider. For example, the Board will have to

reporting public accounts in the same way. The officials

sitting on these committees have run into some difficulties

with their own legislatures and it is a long

process to implement any change in these matters.

THE CHAIRMAN: The laws with respect to

unsecured investments are for the most part general.

They do not apply to companies, but only apply to

individual trustees, and the legislatures are somewhat

reluctant to give to the corporations the powers

that they would hesitate to give to individuals.

THE CHAIRMAN: Now, Mr. Chairman,



1 COMMISSIONER LEMAN: In trying to understand
2 what the consensus is, Mr. Chairman, I got the impression
3 from the brief that the members of the Association were
4 quite unhappy with a lot of the diversity of jurisdiction,
5 and yet this morning I gather that they say, well,
6 it is the best thing that could happen and we are
7 rather happy with it. Is that about it?

8 MR. BEAN: I think that the brief attempted
9 to point out that we are unhappy with the diversity
10 of the rules under which we operate, but I don't think
11 there is too much tendency to this so far as the
12 supervision itself is concerned, we think that some
13 steps should be taken somehow to achieve a greater
14 uniformity of legislation affecting the rules under
15 which we operate.

16 So far the actual multiple jurisdiction as
17 far as supervision is concerned hasn't been a very
18 great burden because, as Mr. Fortin pointed out, in
19 most cases one jurisdiction accepts the expansion of ^{inspection}
20 the other, but as far as operations are concerned it
21 is a difficult thing to operate under a different rule.

22 COMMISSIONER GIBSON: On page 3 of your brief
23 there is a list of the provinces that have special
24 trust companies acts; seven out of the ten have
25 special acts. Now, I guess it is the first appendix,
26 I am sorry. Are you satisfied with these acts and
27 the regulations, that they reasonably protect the
28 public and provide for the rules, and so on and so
29 forth?

30 MR. BEAN: I think the answer to that, Mr. Gibson,



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special acts. Now, I guess it is the first appendix.

I am sorry. Are you satisfied with those acts and

the regulations, that they reasonably protect the

public and provide for the rules, and so on and so

forth?

MR. BEAN: I think the answer to that, Mr. Gibbard,



1 is reasonably, yes. I think there could be ---

2 COMMISSIONER GIBSON: Some of them are better
3 than others?

4 MR. BENA: Yes, the Ontario Act and the
5 Federal Act are very similar; aside from a few minor
6 differences they are alike as two peas in a pod. Some
7 of the other provinces are different and the degree of
8 enforcing is different.

9 THE CHAIRMAN: Are there differences both
10 in respect to the estate trusts and agencies part of
11 the business as well as the different provisions as
12 to reserves, and so on?

13 MR. HODGSON: Some provincial legislations
14 have nothing to say about a lot of things, and the
15 Dominion Ontario or the Alberta Act, which was copied
16 from the Ontario Act, is silent on the point. If it
17 is a trust you must ^{conform with} ~~confirm~~ the trustee legislation
18 of the provinces, which is a different matter than the
19 Trust Companies Act. As a company guaranteed account
20 there is no uniformity, and if you are operating in
21 Saskatchewan you have to keep an eye out for this
22 particular provision, recognizing that those applying
23 to Manitoba may be different; that what would be
24 helpful would be uniform legislation irrespective of
25 the body that supervises or enforces.

26 I think you should have uniform rules as
27 to what a trust company can or cannot do as to such
28 things as liquidity reserves and method of operation,
29 and generally it doesn't matter whether those with
30 Dominion charter are accepted by Ottawa, and those made

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1 by Manitoba by Ottawa also because of an arrangement
2 with Manitoba, and those in British Columbia by the
3 British Columbia authorities, and if the rules are
4 all the same, seeing to it that the rules are observed
5 doesn't matter, does it?

6 THE CHAIRMAN: From what you say I would think
7 it could be more important to have uniformity as to
8 the guarantee account than it would be on the trust
9 and agency business?

10 MR. HODGSON: Except, Mr. Chairman, that
11 since the bulk of the trust companies business is
12 trustee business and the different trustee acts present
13 considerable difficulty.

14 THE CHAIRMAN: It seems to me that considerable
15 difficulties would arise where there are different
16 provisions as to reserves as against your guaranteed
17 account business?

18 MR. HODGSON: Which, of course, is also a
19 trust.

20 THE CHAIRMAN: Well, is it a trust?

21 MR. HODGSON: I believe so, sir; it has been
22 so held by various facilities and certainly the Ontario
23 Act says that they are deemed to be trusts.

24 MR. BEAN: I think that is substantially true;
25 it is more important from an operating standpoint that
26 that portion which deals with what we call guaranteed
27 accounts have more uniformity than the others.

28 THE CHAIRMAN: The guaranteed account is really
29 the deposit business, isn't it?

30 MR. BEAN: That is right.

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1 THE CHAIRMAN: Is that any different from
2 banking deposits?

3 MR. BEAN: It is certainly different as far
4 as --- from the technical standpoint; in our industry
5 they are called trust deposits and are received in trust.

6 THE CHAIRMAN: You call them trust deposits,
7 but what is the difference in the actual working of
8 them?

9 MR. BEAN: We don't own the assets, and so on,
10 but from a practical standpoint it amounts to the fact
11 that we receive the money and invest it. I think there
12 is a difference between doing that and doing what the
13 chartered bank does, but the experts will have to figure
14 that out.

15 THE CHAIRMAN: I don't know whether we can
16 decide that problem; I am just interested in this and
17 somebody else may have some questions about it later.

18 COMMISSIONER LEMAN: What puts it in the
19 jurisdiction of one province or another? Is it where
20 the trust is or where the trustee is located; what is
21 the status of this?

22 MR. BENSON: Where the trust is performed,
23 I think that is it.

24 COMMISSIONER LEMAN: It depends on where your
25 branch is. Suppose that you have a Quebec trust company
26 and a branch in another province; where will the trust
27 be?

28 MR. BENSON: If it performs a trust in the
29 other province, that will be the jurisdiction of the
30 parties. The question of an investment, for example,



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1 would be governed by the trustee of that province.

2 This question of legislative regulation is
3 really the same, so far as control of the companies
4 is concerned, by inspection, returns, examination,
5 and they examine all assets and whether the requirement
6 of the legislation is satisfied as to the earmarking
7 of the assets and whether they are guaranteed or individual
8 trusts and whether the investment authority of the
9 province is complied with. There is no distinction
10 between each particular function we are performing
11 so far as that kind of regulation is concerned. The
12 only difference in the provincial legislation in this
13 respect is that two provinces have no such regulation
14 at all.

15 On the other question of insuring the solvency
16 of these companies, the only main difference again is
17 that the two other provinces have no particular
18 legislation with respect as to how the companies may
19 invest their own capital. The only difference it makes
20 in so far as one function or another is concerned is
21 that in the estate trust and agency business you are
22 concerned with their investment powers, which are a
23 matter of provincial law.

24 COMMISSIONER LEMAN: You have the things which
25 you refer to as ^{ive} collectors' trusts?

26 MR. BENSON: Yes.

27 COMMISSIONER LEMAN: Is their status quite
28 clear?

29 MR. BENSON: Where they are performed, where
30 you perform the trust.



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that in the estate trust and agency business you are
concerned with their investment powers, which are a
matter of provincial law.

COMMISSIONER LEWIS: You have the things which
you refer to as collective trusts?

COMMISSIONER LEWIS: Is that status outside
clear?

MR. BENSON: Where they are performed, where
you perform the trust.



1 COMMISSIONER GIBSON: Mr. Fortin, when you
2 were talking about the importance of uniformity,
3 of having rules, this is a pretty clear point, but
4 surely there must be some difference in the quality
5 of administration and the extent and effectiveness
6 of enforcing, and you have eight different jurisdictions
7 performing the same basic function; is that not a
8 matter of importance throughout?

9 MR. FORTIN: The point I was trying to make,
10 Commissioner Gibson, is that the Province of Ontario
11 and the Dominion are the strongest because most of
12 your trust companies, irrespective of the status of
13 their incorporation, operate in Ontario and you do have
14 strong supervision. There are some companies who may
15 be operating in another province where the supervision
16 may be nominal, but taking the business as a whole ---

17 COMMISSIONER GIBSON: This is not possible,
18 is it?

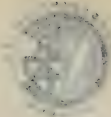
19 MR. FORTIN: Yes, it is.

20 COMMISSIONER GIBSON: They are not all operating
21 in Ontario?

22 MR. FORTIN: But the big part of the business
23 is there. If you take Quebec and Ontario and the
24 Dominion corporations you have by far the bulk of the
25 trust company business in Canada, but there are some
26 on the outside.

27 COMMISSIONER GIBSON: Are you concerned about
28 some of the other administration?

29 MR. FORTIN: Sometimes it is a little annoying,
30 they do some things we don't like, but by and by it seems



COMMISSIONER GIBSON: Mr. Fortin, when you

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1 to straighten out. If you have uniformity of
2 legislation, in respect of the legislation, that in
3 effect it wouldn't matter whether the supervision is
4 carried out by the province or the Dominion.

5 COMMISSIONER GIBSON: Provided the supervision
6 is all right?

7 MR. FORTIN: Yes.

8 COMMISSIONER BROWN: Could I ask a question
9 for clarification on one point. There are two things
10 involved here; there is the Trust Companies Act for
11 the various provinces and there are the trustee acts
12 of the various provinces. Is the first stage the
13 uniformity of the trust companies acts or are you
14 seeking uniformity of both series of acts?

15 MR. FORTIN: Both.

16 COMMISSIONER BROWN: Which is the more
17 important or more practical, shall we say; uniformity
18 of the Trust Companies Act or is -----

19 MR. BENSON; It is the more important from
20 the standpoint of the protection of the public, which
21 I think is Mr. Gibson's thought. The adequate
22 regulation, examination and supervision would be a
23 matter of the trust companies' legislation.

24 THE CHAIRMAN: But the question of trustee
25 investments is under the Trustee Act; they are not
26 affected by any of the companies' legislation?

27 MR. FORTIN: They have to live up to that.

28 THE CHAIRMAN: I have a few questions I would
29 like to ask with reference to estates, trust and
30 agents.



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MR. BENTON: They have to live up to that.

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like to ask with reference to estates, trust and



1 I see by paragraph 1 of your brief that the
2 23 companies represented by your association administer
3 assets of approximately \$9.7 billion, made up of
4 \$185.6 million in company funds, \$1,419 million on
5 guaranteed account and \$3,142.9 million in estates,
6 trusts and agencies.

7 As to the amount that is comprised in the
8 estates, trusts and agencies' business, what sort of
9 valuation have you used in arriving at that figure?
10 Do you take the book value as of a certain date or
11 the market value in some cases? Generally, how do you
12 go about it?

13 MR. BEAN: I think that Mr. Benson can answer
14 that better than anybody else. I don't know the answer
15 as well as he does, but basically ---

16 THE CHAIRMAN: Can you say anything in a
17 general way?

18 MR. BEAN: I heard somebody whisper, "All
19 sorts of values". I think in effect that most
20 companies use the original price or value at the time
21 under which they undertook administration of that
22 particular asset.

23 THE CHAIRMAN: On the date of probate?

24 MR. BEAN: Yes, and when you establish the
25 trust in a living trust, and so on. If there is
26 a uniform practice, I think that is probably it.

27 THE CHAIRMAN: So that the present day value
28 of a great many of these assets may be very much greater
29 than as indicated by this figure?

30 MR. BEN: I think that is undoubtedly correct,

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\$187.6 million in company funds, \$1,419 million on

assets of approximately \$9.7 billion, made up of

28 companies represented by your association administration

of your type that is



1 Mr. Chairman.

2 THE CHAIRMAN: Maybe twice as much or very
3 much more?

4 MR. BEAN: I think that is an area in which
5 the survey which is being made ---

6 THE CHAIRMAN: We are interested in a general
7 way in view of the magnitude of this sort of business
8 and the magnitude of the sums which are under your
9 control.

10 MR. BEAN: Undoubtedly it is substantially
11 greater; whether it is as much as twice as much, I
12 would doubt it.

13 THE CHAIRMAN: Now, with reference to the
14 agency, the trusts agency portion of the business,
15 I suppose the greatest consideration is that of
16 security, is it not, security to the setting trust?
17 You are not concerned too much with the problem of
18 liquidity in that aspect of the business?

19 MR. BEAN: I think as we tried to point out
20 in the brief it is almost impossible to apply -- to
21 say that any one factor is greater ^{than} can be applied
22 to all or substantially all of that account.

23 THE CHAIRMAN: Yes, but then when you look
24 at the sort of business that is carried on under that
25 branch of your industry, you take over certain assets
26 on the death of a person, for instance, and it is true that
27 you may have to dispose of some of these assets in
28 order to pay succession duties and other debts that
29 have to be paid from time to time, but from that time
30 on your functions are of a long-term nature; the trust



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1 is one that carries on for a number of years, so that
2 you are not concerned so much with having a high
3 degree of liquidity as you would be with your guaranteed
4 funds?

5 MR. BEAN: That is undoubtedly correct.

6 THE CHAIRMAN: So, in that respect it is quite
7 a different type of business and it is a different type
8 of business than the banking business and in many
9 respects it is a different type of business from that
10 of the insurance companies.

11 I notice the figures given as to the growth
12 of this business, the growth of the funds administered
13 by trust companies, and I have some figures here which
14 I believe came from the Bank of Canada. I don't know
15 whether you have this statement which was supplied to
16 us, but it shows the assets and liabilities of 17
17 companies as of December 31 from 1951 to 1960, and
18 it appears that the rate of growth has been somewhat
19 erratic. It was 3 per cent in 1951 and in 1952 it
20 was 4 per cent, and then 2 per cent, and in 1954 it
21 suddenly went up to a 34 per cent increase, and then
22 it went down to 13 per cent and 4 per cent and 5 per
23 cent, and in 1958 it was 24 per cent and in 1960 21
24 per cent. These are the assets; I wonder if you could
25 tell us anything about that. Does that indicate anything
26 peculiar to your business in any way?

27 MR. BEAN: Are you referring, may I ask,
28 to the estates trust agency business alone or all
29 these under "administration"?

30 THE CHAIRMAN: I am sorry, I didn't hear you.

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MR. BLAIR: Are you referring, may I ask,

to the stated trust agency business alone or all

these under "administration"?

THE CHAIRMAN: I am sorry, I didn't hear you.



1 MR. BEAN: Was your reference to the estates
2 trust or the agency business alone?

3 THE CHAIRMAN: No, this is just the estate
4 trust agency business.

5 COMMISSIONER GIBSON: These are company assets,
6 these are not the administered funds.

7 THE CHAIRMAN: I am sorry, I am advised that
8 I have in my hand the wrong set of figures, but there
9 is a similar variation in the asset trust figures?

10 MR. BEAN: Actually, the over-all growth,
11 and so on, is quite an even pattern if you look at
12 chart 1 and 2 in Appendix 2.

13 THE CHAIRMAN: I was reading from the top
14 line and it is in the bottom line. It is not quite
15 as erratic as the progress of the business as a whole.
16 In the funds administered by the trust companies,
17 the rate of increase was 5 per cent, 4 per cent, 4
18 per cent, 7 per cent, 7 per cent, 8 per cent, 10 per
19 cent, 14 per cent, 10 per cent and 7 per cent, so the
20 same thing might apply to this type of investments
21 as to the business as a whole?

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30

MR. DEAN: Was your reference to the estates

trust or the agency business alone?

MR. DEAN: No, this is just the estate

trust business.

MR. DEAN: These are company assets.

These are not the administrative funds.

THE CHAIRMAN: I am sorry, I am advised that

I have in my hand the wrong set of figures, but there

is a similar variation in the asset trust figures?

MR. DEAN: Actually, the over-all growth,

and so on, is quite an even pattern if you look at

chart 1 and 2 in Appendix 2.

THE CHAIRMAN: I was reading from the top

line and it is in the bottom line. It is not quite

as erratic as the progress of the business as a whole.

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1 But there are wide changes, and it is not a steady
2 progression up. It goes up and down. What would be
3 some of the reasons for that sort of development?

4 MR. BEAN: Those figures, I think, must be almost
5 all in guarantee accounts -- those variations; looking
6 at the figures for estates, funds and agencies, the
7 progression is relatively uniform. Looking at the
8 over-all figure for the business as a whole, which is
9 shown in Appendix 2, which is a study by Western University
10 ---

11 THE CHAIRMAN: In the study?

12 MR. BEAN: Yes, Chart 1 and 2 -- it follows
13 page 130, the second sheet beyond it: The rate of
14 increase looks more regular than it does for the insurance
15 companies or for many of the other financial companies
16 in Canada.

17 THE CHAIRMAN: Is that shown on the chart?

18 MR. BEAN: Yes. You will see, looking at
19 the charts, it is a much more uniform -- appears to be
20 more uniform than for most other financial institutions
21 in the country.

22 THE CHAIRMAN: Yes. There was quite a steep
23 rise just before 1950, and a levelling off, and a little
24 more gradual increase to 1960. That applies only to
25 the assets under administration?

26 MR. BEAN: That includes the total business.
27 That includes the estates, trusts and agencies and
28 the guaranty accounts.

29 THE CHAIRMAN: In 1952 there was 2 per cent
30 growth and in 1958 a 12.6 per cent growth: It is in the



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more gradual increase in 1950. That applies only to
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MR. BEAN: That includes the total business.

That includes the estates, trusts and agencies and
the guarantee accounts.

THE CHAIRMAN: In 1953 there was a very steep

growth and in 1958 a 12.6 per cent growth: It is in the



1 Appendix. However, you might get it more definitely
2 in a few minutes.

3 COMMISSIONER BROWN: Mr. Chairman, perhaps
4 we could refer to page 21 of the brief: There are
5 some comparative figures in paragraph 157, and it
6 would appear from those that in the first half of the
7 last decade the trust companies rather lagged behind
8 the banks, the life insurance, the mortgage companies
9 and the fire and casualty companies. In the second
10 half of the decade their rate of growth was faster
11 than those other institutions relative to the total.
12 I wonder if anybody has some comments as to the reasons
13 that caused this change? Was it better advertising,
14 public relations, a drive to attract savings? What
15 were the factors -- or, was it people dying and leaving
16 large estates for administration purposes?

17 MR. BENSON: Certainly in the estates, trusts
18 and agency field it is a reflection of the growing
19 wealth of the community and changes in dollar values,
20 of course; but there is nothing that keeps that stable
21 because rates of mortality vary too. However, the
22 biggest factor would be changes in the wealth of the
23 community and changes in dollar values.

24 MR. PEMBROKE: May I suggest, Mr. Commissioner,
25 that in part the growth in the last period you named
26 is an influx of pension funds into trust companies which
27 did not exist in the earlier years. They now represent
28 a very substantial asset under trust administration.

29 THE CHAIRMAN: The figures in reference to the
30 assets under administration are on page 22 of your brief?



Appropriate comments might be made regarding the figures in the last decade.

COMMISSIONER BROWN: Mr. Chairman, perhaps

we could refer to page 21 of the brief: There are

some comparative figures for the years 1917 and 1927

and it would seem that there was a slight shift in the

last decade the trust companies rather lagged behind

the banks, the life insurance, the mortgage companies

and the fire and casualty companies. In the second

half of the decade their rate of growth was faster

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a very substantial asset under trust administration.

THE CHAIRMAN: The figures in reference to the

figures under administration are on page 21 of your brief.



1 MR. BEAN: Yes.

2 THE CHAIRMAN: What steps are the trust companies
3 able to take to influence the volume of funds that are
4 brought to them for administration? No doubt you
5 advertise in a very professional way.

6 MR. BEAN: I think probably one of the
7 greatest ways of getting new business in all trust
8 companies, Mr. Chairman, has been the gradual enlarge-
9 ment of the circle of people who have experienced trust
10 company administration. Certainly, I think it applies
11 to our own company, and I think it applies to all
12 companies, that as this circle grows it automatically
13 brings back a great deal of business. Inevitably we
14 find that by far the greatest part of our new business
15 comes from people who had an association either as a
16 beneficiary in an estate or in a trust and that sort
17 of thing, coming back to us. So, there is the growth
18 itself and the ever widening group of people affected
19 by the industry through the large number of trustors,
20 and so on, and beneficiaries, and that in itself brings
21 greater growth as we go along. Undoubtedly, all the
22 companies make substantial efforts to develop entirely
23 new business outside that circle. All companies have
24 new-business departments and do a certain amount of
25 solicitation and that sort of thing. I think by
26 far the greatest factor in the growth of the trust
27 company business has been this ever-widening circle
28 of people who have experienced the administration of
29 trust companies.

30 THE CHAIRMAN: And your main object, of course,



MR. BEAN: Yes.

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solicitation and that sort of thing. I think by

far the greatest factor in the growth of the trust

company business has been this ever-widening circle

of people who have experienced the administration of

trust companies.

THE CHAIRMAN: And your main object, of course,



1 is to make sure that the capital which you receive
2 for administration is maintained and kept secure?

3 MR. BEAN: Yes, that is right, Mr. Chairman;
4 the fundamental thing is that ---

5 THE CHAIRMAN: The fundamental trust company
6 business?

7 MR. BEAN: Yes.

8 THE CHAIRMAN: Well, where the trust instrument
9 permits considerable latitude in investment, what is
10 your position under those circumstances? Suppose the
11 trust instrument provides that you are not to be
12 restricted at all in your investments: Then, how do
13 you interpret that sort of thing?

14 MR. BEAN: As you know, Mr. Chairman, we are
15 still subject, irrespective of the latitude given to
16 us in a trust document or will, to what is called the
17 prudent man rule. We must do things which in the ordinary
18 course of events would be termed prudent.

19 THE CHAIRMAN: Yes, but some people consider
20 it prudent to invest only in gilt-edged securities,
21 and others think there is prudence in investing in
22 common stocks of various kinds. If you had wide open
23 powers to what extent would you exercise them?

24 MR. BEAN: Certainly, I think in modern
25 administration one of the main reasons for suggesting
26 to testators that they put discretionary powers in
27 wills is to permit the executor to do that sort of thing.

28 THE CHAIRMAN: I was wondering to what extent
29 you act upon it?

30 MR. BEAN: In those cases there are quite often



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you set upon it?

MR. BEAN: In those cases there are quite often



1 a large element of common stocks administered in estates
2 and trusts -- particularly trusts, but also in estates.

3 THE CHAIRMAN: You do engage in common stock
4 investment if you have the power to do so?

5 MR. BEAN: Yes.

6 THE CHAIRMAN: Sometimes in quite a substantial
7 way?

8 MR. BEAN: In larger estates, quite substantial.

9 THE CHAIRMAN: So that if the powers were
10 extended you would be prepared to take the risk of
11 exercising those powers even though you might face the
12 real possibility of a loss?

13 MR. BEAN: Yes, and that has been done -- as
14 you suggest, it has been done in cases where we have
15 the discretion now, and undoubtedly it will be done in
16 other cases as well.

17 MR. PEMBROKE: May I supplement that, Mr.
18 Chairman?

19 THE CHAIRMAN: Yes.

20 MR. PEMBROKE: The essence of our trust
21 business is that every individual estate, every trust,
22 must be dealt with individually. So that even though
23 one may have exactly the same investment powers in
24 two trusts, the requirements of those trusts may be
25 entirely different. In one case there may be an
26 urgent necessity for immediate income return, and in
27 another trust there may be less pressing need for that
28 return, so that the trust might be able, shall I say,
29 to accumulate for the benefit of eventual beneficiaries --
30 not perhaps in the present or the next generation. Those



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to accumulate for the benefit of eventual beneficiaries

not perhaps in the present or the next generation. Those



1 are considerations that we have to take into account
2 in determining the investment policy, regardless of
3 what our powers are.

4 THE CHAIRMAN: Have you any rule-of-thumb
5 you apply where you are given unrestricted powers?

6 MR. PEMBROKE: No, sir.

7 THE CHAIRMAN: I mean as to the maximum amount
8 of common stock that you would buy?

9 MR. PEMBROKE: In so far as my own company
10 is concerned, the answer must be, "No, sir", because
11 of what I said to begin with, that each individual
12 account has to be dealt with separately.

13 THE CHAIRMAN: It is conceivable that in
14 some accounts you might put it all into common stock?

15 MR. PEMBROKE: I can hardly imagine it coming
16 within the prudent rule theory.

17 THE CHAIRMAN: That depends on the circumstances.

18 MR. BENSON: If I could illustrate Mr. Pembroke's
19 emphasis on this individuality, one of our investment
20 men suggested to me a list of questions which arise
21 in dealing with any individual trust:

22 Who is the life tenant?

23 What is his or her age?

24 How important is income?

25 Is there power to encroach on capital?

26 What is the life tenant's approximate
27 top bracket for income tax?

28 Who are the residuary beneficiaries?

29 What are their ages?

30 When is capital distributed?



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1 Are all interests vested?

2 Have we a co-trustee and what views
3 has he expressed?

4 Are there tax requirements now or
5 in the near future?

6 All these factors make it simply impossible
7 to have what might be called a rule-of-thumb.

8 THE CHAIRMAN: Yes, but I was wondering if
9 there was a feeling that you really had in mind that
10 under no circumstances would you put more than a certain
11 percentage in common stocks, as an example?

12 MR. PEMBROEK: May I suggest again, there is
13 no rule-of-thumb primarily because we have, as investors
14 for estates and trusts, to watch what is developing
15 in the market, particularly so far as longer trends
16 are concerned. So, although at one stage we may have
17 a very substantial investment in stocks it may be
18 desirable to reduce that and go into bonds at one
19 particular phase in the market.

20 MR. FARIBAULT: May I add that also depends
21 on the nature of the property we get in the beginning.

22 THE CHAIRMAN: If you get property that consists
23 entirely of gilt-edged securities, would you hesitate
24 before you put that into securities of not quite the
25 same soundness?

26 MR. FARIBAULT: I would say yes, generally
27 speaking; but it is also a question of the size of
28 the estate.

29 THE CHAIRMAN: Yes, I understand. There are
30 many factors.

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has he expressed?

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are all interests



1 COMMISSIONER LEMAN: Do you mean even if the
2 trustee is given all powers and if he receives an
3 estate of a certain character he will tend to preserve
4 the general character of the distribution of property
5 in that estate?

6 MR. FARIBAULT: Not necessarily, but he will
7 certainly hesitate to dispose of the property and the
8 stock on a given ideal distribution of the stock. He
9 will take into account all the circumstances. He has
10 not prejudice of the stock. I think this is the
11 statement -- it is an open mind all the time, and the
12 circumstances and the interests of the beneficiaries
13 are paramount.

14 COMMISSIONER MACKEN: When you were making
15 a drastic change, say, from all bonds to a proportion
16 of equity stock, wouldn't you be inclined to discuss
17 that with the beneficiary before making such a change
18 and possibly getting their concurrence?

19 MR. FARIBAULT: Again, it is a question where
20 it is very often preferable not to discuss it with the
21 beneficiaries; or, sometimes it is better. It depends
22 who the beneficiaries are. If it is a widow, sometimes
23 we would prefer to discuss it with her because there
24 are minor children. Another case we prefer not to
25 discuss it with her because we have appointed precisely
26 for that purpose.

27 THE CHAIRMAN: How do you know you have been
28 appointed for that purpose?

29 MR. FARIBAULT: Generally speaking, the testator
30 has talked to us.

COMMISSIONER LUMAN: Do you mean even if the

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has talked to us.



1 THE CHAIRMAN: You mentioned the drawbacks
2 attendant upon appointing individuals as co-trustees.
3 That appears at paragraph 2.06 of the brief. I under-
4 stand that your general preference is against having
5 a co-trustee and I wondered just what the main reasons
6 would be. I understand that the co-trustee shares
7 the costs on some basis, shares the fees on some
8 basis, but aside from that you mentioned that the co-
9 trustee might be absent at a time when you need his
10 signature et cetera to carry through a transaction and
11 a certain amount of time is lost. What are the major
12 drawbacks?

13 MR. BENSON: I think the summary at the
14 top of page 36 of the brief covers it as well as I can,
15 that apart from problems of delay the trustee's own
16 viewpoint may neutralize the trust company's judgment.
17 This is the responsibility of the testator, however, and
18 if he wants to give equal reliance to the judgment
19 of an individual whose judgment may change with the
20 years, that is his responsibility.

21 We only feel that it is necessary to
22 point out that there could be disadvantages and
23 that is as far as we go in the circumstances. If
24 the appointment of a co-trustee were proposed we
25 would raise no objection to it at all, but we would
26 point out that each trustee would have full responsibility
27 for what was decided.

28 THE CHAIRMAN: You say that the testator
29 appointed the trust company because of his confidence
30 in their organization and investment judgment. Is that



THE CHAIRMAN: You mentioned the trustee.

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THE CHAIRMAN: You say that the testator

appointed the trust company because of his confidence

in their organization and investment judgment. Is that



1 always necessarily the motive?

2 MR. BENSON: It seems to be from the
3 indications we can get. That, of course, applies to
4 permanence and financial responsibility.

5 THE CHAIRMAN: Then, there must be some
6 motive for appointing an individual. May it not be
7 this, that the testator has an individual in mind,
8 a relative or personal friend whom he has confidence
9 in and he knows that the trust company's staff changes
10 from time to time, he does not know who will be handling
11 his business in the next ten years, and for that
12 reason he wants somebody whom he knows as a co-
13 trustee? Is not that the usual motive for appointing
14 a co-trustee?

15 MR. BENSON: I think it is, yes, and very
16 naturally.

17 THE CHAIRMAN: It is true they can veto
18 any decision and it might be that the law is in such
19 a state that it does create practical difficulties
20 of administration which could be possibly changed
21 by an amendment but, nevertheless, a co-trustee is
22 something that is in the minds of many people as
23 being a very important appointment. Is there anything
24 further?

25 MR. HODGSON: I would like to add to this,
26 sir, perhaps the words and the provisions would lead one
27 to misunderstand the approach and there probably is
28 a difference of opinion among trust companies in this
29 particular matter.

30 In our own company we welcome a co-trustee

indications we can get. That, of course, applies to
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MR. HOBBS: I would like to add to this.

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to misunderstand the speech and there probably is

a difference of opinion among trust companies in this

in our own country we have a confidence



1 either in the nature of the widow or a friend of the
2 deceased testator on the basis that while a trust
3 company is working through persons, nevertheless there
4 is this impersonality of the corporation. We recognize
5 all the problems that come to mind through having a
6 co-trustee work with the company, but, generally speaking,
7 we have found that the advantages perhaps outweigh
8 the disadvantages; in other words, the ability and
9 advantage of speaking to and talking to the co-
10 executor or executrix who might be thereby able to
11 understand the reasons for the approach.

12 Normally, I think also I expect that the
13 testator appointed the trust company for its professional
14 competence, but I think most people would also like
15 to feel that their beneficiaries had some opportunity
16 to discuss things a bit. Not that my estate is any
17 size, but my wife is a co-executor and I think it is
18 a good thing from that point of view for the purpose
19 of having her made aware of what is going on. But
20 there are certainly very few problems of administration.
21 Situations can arise where this might be burdensome
22 and difficult and the provision of sharing in the
23 trustee's fee obviously the company is going to do
24 most of the work and that is why it was appointed.

25 THE CHAIRMAN: Well, one of the main
26 reasons, I suppose, or one of the reasons for appointing
27 a trust company is that the company has facilities and
28 investment opinions within its staff and a great
29 many facilities to offer whereas the individual alone
30 might be completely lost?



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advantage of speaking to and talking to the co-

executor or executrix who might be thereby able to

understand the reasons for the approach.

Normally, I think also I expect that the

testator appointed the trust company for its professional

competence, but I think most people would also like

to feel that their beneficiaries had some opportunity

to discuss things a bit. Now that my estate is not

also, but my wife is a co-executor and I think it is

a good thing from that point of view for the purpose

of having her made aware of what is going on. But

Situations can arise where this might be burdensome

and difficult and the provision of sharing in the

trustee's fee obviously the company is going to do

most of the work and that is why it was appointed.

THE QUESTION: Well, one of the main

reasons, I suppose, or one of the reasons for appointing

a trust company is that the company has facilities and

investment opinions within its staff and a great

many facilities to offer whereas the individual alone

might be completely lost?



1 MR. BEAN: I think, as Mr. Hodgson suggests,
2 there is a wide variation of opinion amongst the various
3 companies as to the pros and cons of this matter. From
4 a practical point of view, from a dollar and cents
5 point of view it is going to increase our costs to
6 have a co-executor and our fee is decreased at the
7 same time, so in that area we would prefer not to
8 have a co-trustee. But there are many cases in which
9 a company recommends co-trustees.

10 COMMISSIONER LEMAN: We can hardly hear
11 you.

12 MR. BEAN: From a straight dollar and
13 cents point of view the incentive for appointing a
14 co-trustee on our part is ^{not} very great. Mr. Hodgson
15 mentioned that in the event of having his wife as
16 a co-executor she would then be fully informed on
17 what occurs in the estate, but I think that would
18 happen in any event. I think all companies would
19 keep the widows informed as to what goes on. There
20 may be cases where it would not be the same as others,
21 but I think in many cases the company executor does
22 do that. There are cases where a co-executor
23 certainly is desirable.

24 THE CHAIRMAN: As to the costs of trust
25 company service, the fees charged by trust companies,
26 of course those matters are all subject to certain
27 controls either by the courts or by specific legislation
28 in this part of the business so that if you want to
29 charge more than you have done in the past you are
30 pretty well restricted from doing so. Is that generally



MR. BRAN: I think as Mr. Hodgson suggests there is a wide variation of opinion as to the matter. From a practical point of view, from a dollar and cents point of view as the dollar and cents are decreased at the same time, so in that area we would prefer not to have a co-trustee. But there are many cases in which a company recommends co-trustees.

COMMISSIONER LEWIS: We can hardly hear

MR. BRAN: From a strategic dollar and cents point of view the incentive for appointing a co-trustee on our part is very great. I mentioned that in the event of having his wife as a co-executor she would then be fully informed on what occurs in the estate, but I think that would happen in any event. I think all companies would keep the widows informed as to what goes on. There may be cases where it would not be the same as others, but I think in many cases the company executor does do that. There are cases where a co-executor certainly is desirable.

THE CHAIRMAN: As to the costs of trust company services, she has charged my trust companies. Of course these matters are all subject to certain controls either by the courts or by specific legislation in this part of the business so that if you want to charge more than you have done in the past you are

Finally will recommend the matter to the final committee



1 the case across the country?

2 MR. BEAN: Oh yes, that is right, Mr.
3 Chairman.

4 THE CHAIRMAN: Could you say something about
5 what factors are taken into consideration in fixing
6 the costs for the services you render? Is there
7 much competition between companies by offering
8 services at a slightly less cost at different times,
9 et cetera, or are the costs fairly uniform across
10 the board?

11 MR. BEAN: Mr. Chairman, I would suggest
12 that the costs tend to be similar.

13 THE CHAIRMAN: When I say, "costs" I perhaps
14 should have said fees or charges.

15 MR. BEAN: But there is certainly a variety
16 of charges made and it is an area in which there is
17 certainly competition between companies.

18 THE CHAIRMAN: And sometimes one company
19 will offer services at a slightly less cost than another?

20 MR. BEAN: That is correct.

21 THE CHAIRMAN: It is not an unusual thing?

22 MR. BEAN: No.

23 COMMISSIONER MacKEEN: That would apply
24 especially on pension funds, Mr. Bean, would it not,
25 that there is more competition?

26 MR. BEAN: I think, Mr. MacKeen, it probably
27 applies almost everywhere. There is a certain amount
28 of price competition although I think basically the
29 real competition is in the services rendered and the
30 particular capacity of a company to do a particular job



the same across the country?

MR. BEAN: Yes, that is right, Mr.

Chairman.

THE CHAIRMAN: Now you are assuming that

what factors are taken into consideration in fixing

the costs for the services you render? Is there

much competition between companies by offering

services at a slightly less cost at different times,

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THE CHAIRMAN: Now, would you say

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MR. BEAN: I think so, Mr. Chairman, in general.

applies almost everywhere. There is a certain amount

of price competition although I think basically the

real competition is in the services rendered and the

particular capacity of a company to do a particular job



1 and sold on that basis, but undoubtedly there is some
2 price competition as well.

3 THE CHAIRMAN: So that you do offer services
4 at slightly reduced costs and that would indicate that
5 you are accepting less than what might be described
6 as the legal maximum?

7 MR. BEAN: I think we were thinking primarily
8 in the answer of the areas in which other than those
9 subject to surrogate court fees were concerned, and
10 that sort of thing. I say that particularly on agency
11 accounts, pension accounts, and that type of thing.

12 THE CHAIRMAN: Is it subject to any
13 ceiling?

14 MR. BEAN: Subject to agreement between
15 the two parties, that is all.

16 THE CHAIRMAN: That sort of business is
17 not subject to any legislation or subject to the courts?

18 MR. BEAN: No, there is no legislation.

19 THE CHAIRMAN: In any of the provinces?

20 MR. BEAN: I believe so.

21 THE CHAIRMAN: I notice in paragraph 2.14
22 of the brief it is indicated that in Quebec the use
23 of a living trust is restricted. Can you elaborate
24 on that?

25 MR. BEAN: I wonder if I could ask Mr.
26 Faribault to speak on that one.

27 MR. FARIBAULT: I would say, Mr. Chairman,
28 that the living trust in Quebec is restricted because
29 it would be considered by the courts to be an agency.
30 The moment the settlor would reserve unto himself any



and that in that matter, but undoubtedly there is some
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THE CHAIRMAN: I notice in paragraph 2 of

of the order it is indicated that in Quebec the law

of a living trust is restricted. Can you elaborate

MR. BEAN: I wonder if I could ask Mr.

Parliament to speak on that one.

MR. PARIAULT: I would say, Mr. Chairman,

that the living trust in Quebec is restricted because

it would be considered by the courts to be an agency.

The court the restriction is not absolute and possible and



benefit, and it could not be a gift, a transfer of property would be considered as a transfer of property for the purpose of performing an agency and the main provision of the Quebec law in that respect is that a man who is capable and able to dispose of property may do so by gift or by will in favour of a trustee. Unless you fall within that category of gift or will the courts would construe that as a mere agency.

This causes you to lose the many benefits of the living trust as constituted in the other provinces. On the other hand, you can get in the province of Quebec a very good protection for spendthrifts by having a trust company appointed as a financial advisor at his own request which is something which I understand is not done in the other provinces. This would be the case where there would be a definite advantage. In the other cases it would always fall back within the category of the agency.

COMMISSIONER LEMAN: But in the other provinces to create a living trust, must there be a transfer of property vested to the trustee?

MR. FARIBAUT: I think that should happen but the transfer of property must represent something -- either a gift or something.

I would not presume to say anything about the common law of the province. I think you could have what they call a declaration of trust for gifts which is not known in the province of Quebec. This is rather an intricate point in civil law, but the principle is that you can have no trust for the settlor.



MR. PARIBAUT: I think that should happen

I would not presume to say anything about



1 For the gift to be valid he has got to divest himself
2 of the full ownership in this. He does reserve some-
3 thing and the reserve is something which is not within
4 the trust but outside the trust.

5 I understand that in the common law provinces
6 you consider the reserve as within the trust and so
7 you can have no onerous trust, that is to say, a
8 trust constituted for a consideration by onerous title.
9 So here the restrictions are built in the law and I
10 think that the words of the Privy Council are very
11 much to the point, that the law on trust is not in
12 aid of the province of Quebec and that you have to
13 take the statute on trusts as it was enacted and make
14 it work with the other principles.

15 THE CHAIRMAN: In using the words "living
16 trust" in the brief living trusts would include
17 agency trusts and some other trusts, would it?

18 MR. BENSON: We start it apart altogether
19 from agencies where a principal keeps control over
20 the property.

21 THE CHAIRMAN: It is a living trust where
22 there is a settlement?

23 MR. BENSON: It has started with the
24 property which is vested in us and there is no control
25 at all.

26 THE CHAIRMAN: He has no control at all?

27 MR. BENSON: No.

28 THE CHAIRMAN: We will now adjourn for
29 a ten minute break.

30 (At this point a short recess was taken.)



For the purpose of the Bill, the law of the Province of Quebec is to be applied to the trusts created in that Province, and the law of the Province of Ontario is to be applied to the trusts created in that Province.

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1 THE CHAIRMAN: We will now resume.

2 Coming to the question of investment manage-
3 ment; it is perfectly obvious, I suppose, that where
4 investments are restricted by statute there is very
5 limited room for the choice of investments, but in
6 cases where the restrictions are listed either by
7 will or have been reduced by legislation, I would
8 like to hear something about investment management
9 policy. Where assets are free of legal restrictions
10 or in part free of legal restrictions, what steps
11 are taken by trust companies to determine the sort
12 of investments they will make?

13 MR. BEAN: Mr. Chairman, I wonder if Mr.
14 Hodgson might speak to that point? I presume you
15 are referring initially to the procedures that are
16 followed?

17 THE CHAIRMAN: Yes, I would like a general
18 picture, perhaps in some detail, of the methods used
19 and the general practice as to how you determine the
20 program of investment. I suppose it would be for
21 each particular trust, and it would be different in
22 each case; that is the types of investment would be
23 different, but the procedure would probably be
24 applicable in all cases.

25 MR. HODGSON: Well, it is true, sir, that
26 each trust is viewed as to its own particular and
27 peculiar requirements. Mr. Benson mentioned a list
28 of the items that would be considered by the investment
29 officer to whom this particular account had been
30 given.



We will now resume.

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MR. HODGSON: Well, it is true, sir, that
each trust is viewed as to its own particular and
peculiar requirements. Mr. Benson mentioned a list
of the items that would be considered by the investment



1 The investment officer is fully aware
2 of the terms and conditions of the instrument and
3 in all aspects of those points that Mr. Benson made.
4 He then will draw up in his opinion a desirable set
5 of recommendations as to the change of the assets
6 which have been given to him, and the determination
7 of what he will buy, or what he will recommend will
8 be largely determined by these conditions; income
9 or perhaps discount bonds depending on the circumstances
10 of the instrument.

11 The investment officer is supported in
12 our company by a large research and analysis section
13 which produces and constantly keeps up to date information
14 on securities in the markets. When a recommendation
15 has been made by an investment officer these recom-
16 mendations are considered by an investment committee
17 which again in our company consists of the senior
18 officers, and the decisions or the recommendations
19 that have been made are then discussed as well as
20 the reason for them, and changes either made or
21 acceptance given to the recommendations.

22 In an investment department in addition to
23 the research and analysis group there are various
24 other adjuncts; evaluation sections and a trading
25 operation where constant check is kept of the current
26 position in the markets and that is where the actual
27 orders to buy or sell are put through.

28 THE CHAIRMAN: Well, are there sometimes
29 decisions that have to be made from day to day as
30 between meetings? Is that so? There must, on a good



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THE CHAIRMAN: Well, are there sometimes

decisions that have to be made from day to day as
between meetings? Is that so? There must, on a good



1 many occasions have to be decisions made from day to day.
2 What would be the extent of authority in cases of that
3 kind?

4 MR. HODGSON: Meetings are held weekly
5 with estates and trusts, for example, and also weekly
6 on other pension accounts. In view of the fact that
7 all of the senior officers are available, or most
8 of them would be available in the event of an urgent
9 situation to make policy and discuss the circumstances
10 that should be considered, meetings are called other
11 than on a regular basis. For example, the relatively
12 recent change in the Bank of Canada rate occurred
13 and we had to meet immediately thereafter to try and
14 determine what action was considered that we should
15 take. Generally speaking I think it is probably
16 reasonable to say that there is not a sense of urgency
17 that something has to be sold or bought precipitously,
18 except in terms of an examination of these things to
19 consider what we should do in light of the changed
20 circumstances.

21 COMMISSIONER LEMAN: I would like to get
22 a somewhat clearer idea of the mechanics. There is
23 an officer who is in charge of a certain trust or
24 account. That is what you explained to us, is it?

25 MR. HODGSON: Companies vary in their
26 approach to this. I speak of my company. Where
27 there is, let us consider, an estate under will, we
28 will have an administrator in the personal trust
29 department who will carry on his contact with the
30 beneficiaries and, generally speaking, look after all





1 the circumstances of the instrument except the invest-
2 ment. He will pass that information of the instrument
3 to the investment officer to whom this has been
4 allocated. We may have any number of personal
5 trust officers and any number of investment officers.
6 In our company the segregation or allocation of the
7 investment responsibilities is done on an alphabetical
8 basis. Someone has from A to D or D to L; that
9 sort of thing rather than spreading it out as to
10 type of account. So the investment officer has to
11 cope with all sets and kinds of investment recom-
12 mendations.

13 COMMISSIONER LEMAN: But for a given
14 account will purchases in the market be made for
15 that account specifically?

16 MR. HODGSON: That is correct.

17 THE CHAIRMAN: Do companies ever buy blocks
18 of securities with estate, trust and agency funds
19 and then distribute it to various accounts?

20 MR. HODGSON: Not as a general rule.

21 THE CHAIRMAN: Generally the purchases
22 of securities are separate purchases for each particular
23 account?

24 MR. HODGSON: That is correct.

25 COMMISSIONER MacKEEN: Is there a brokerage
26 charge in that regard, Mr. Hodgson, by the trust
27 company?

28 MR. HODGSON: Sometimes, I believe, sir,
29 and sometimes not.

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1 and not in others, is that right?

2 MR. HODGSON: I believe that is correct.

3 MR. BENSON: In the common law provinces
4 where the law of trusts applies the executor can
5 only obtain compensation awarded by the court, so
6 that if he has received any other compensation,
7 real estate commissions or brokerage charges, he
8 would show that in his account and that would be
9 deducted from the amount the court allowed.

10 MR. BEAN: I think in actual practice
11 he does not receive anything in any other province
12 than Quebec. They are paid no commission or brokerage.

13 COMMISSIONER GIBSON: A lot of your accounts
14 are, of course, still fixed in terms of a will or
15 some legal framework which has been laid down. You
16 have made it quite clear in your brief that you would
17 like to be given broader investment powers. Para-
18 graph 229 expresses this thought very clearly. You
19 say that in a growing proportion of the estate business
20 you have these broad powers.

21 MR. HODGSON: That is right.

22 COMMISSIONER GIBSON: Just to get an idea
23 of how much the estate business might be responsive
24 to changes in monetary conditions such as you referred
25 to; for example the recently announced 6 per cent
26 bank rate, what sort of proportion would you have
27 broader investment powers in? Would you have any
28 idea? Would it be half of the estates now?

29 MR. HODGSON: I would venture to guess only
30 from our own company's experience, about 75 per cent.



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1 COMMISSIONER GIBSON: In terms of the money
2 you are handling in trust?

3 MR. HODGSON: You are speaking now of
4 estates?

5 COMMISSIONER GIBSON: Yes.

6 MR. HODGSON: Most of the estates that
7 are now coming to our company are coming with
8 discretionary powers.

9 COMMISSIONER GIBSON: On the other hand
10 you must have some large ones that you have been
11 administering for a period of time in which you do
12 not have these powers?

13 MR. HODGSON: Oh, quite so.

14 COMMISSIONER GIBSON: But you would think
15 something like 75 per cent of the assets you have
16 in your estate administration have given you pretty
17 broad discretionary powers?

18 MR. HODGSON: I would say 75 per cent
19 of the new ones coming in come in in that way.

20 COMMISSIONER GIBSON: Yes.

21 MR. HODGSON: Whether we would be that
22 high at the present time in total, I am not sure,
23 but it would be gradually approaching that, I would
24 think.

25 COMMISSIONER GIBSON: You do not all
26 agree then, I take it?

27 MR. BEAN: 75 per cent to me sounds pretty
28 high for those under administration at the moment.
29 There is one factor which comes into this which has
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1 not been mentioned and that is that often where there
2 are no broad powers to invest, under the trustee
3 act in a great many cases there is what is called the
4 power of retention of a non-trustee asset. I think,
5 taking this into account, the figure that Mr. Hodgson
6 mentioned might probably be fairly close, again as
7 far as our company is concerned. That is a further
8 complication because where you have the power to
9 hold, once you surrender your position in holding
10 non-trustee assets, you cannot recover.

11 COMMISSIONER GIBSON: This is another
12 factor of rigidity?

13 MR. BEAN: Yes.

14 COMMISSIONER GIBSON: And a co-executor
15 would be a further rigidity? When you have to deal
16 with somebody else it is not as flexible as it other-
17 wise would be?

18 MR. HODGSON: Perhaps along the lines that
19 Mr. Bean mentioned, when I say "discretionary power",
20 if you were trying to think in terms of what proportion
21 of actual dollar value of the estates, trusts and
22 agencies under our administration do we have dis-
23 cretion, this would be much too large on that basis.
24 From the point of fact in respect to pension funds,
25 which are bulked very largely in the figures, most
26 of these instruments under which we operate do not
27 have limitations. By the same token, we discuss with
28 the companies our proposals and general policy of
29 approach, and so on. If one were to say how much
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COMMISSIONER GIBSON: And a co-executor would be a further rigidity? When you have to deal with somebody else it is not as flexible as it otherwise would be?

MR. HODGSON: Perhaps along the lines that Mr. Bean mentioned, when I say "discretionary power", if you were trying to think in terms of what proportion

of actual dollar value of the estates, trusts and agencies under our administration do we have discretion, this would be much too large on that basis. From the point of fact in respect to pension funds, which are bulked very largely in the figures, most of these instruments under which we operate do not have limitations. By the same token, we discuss with the companies our proposals and general policy of approach, and so on. It one were to say how much



1 does the trust company actually have with complete
2 discretion, and not having to talk with any person
3 at all, then it would be very much less than that.

4 COMMISSIONER GIBSON: Now, when you have
5 what you would regard as an important change in the
6 finance environment, such as this bank rate announce-
7 ment made about a month ago, you have a meeting of
8 your senior investment committee at a time like that?

9 MR. HODGSON: Yes.

10 COMMISSIONER GIBSON: And you decide,
11 or come to some conclusion as to what this might mean
12 from your point of view, and from the point of view
13 of the people you represent. What do you do? Do
14 you call in certain people? What is the next
15 mechanical step in working this out?

16 MR. HODGSON: I suppose it falls into
17 two categories; one, the fact is that new funds
18 are required to be invested, such as pension funds
19 where funds are constantly growing, and the other
20 one, I suppose one could consider the account that
21 was already fully invested -- an estate, let us say.
22 The principal concern would be with the former; that
23 is, what action should be taken to employ new funds.

24 When one talks about estate and trust
25 accounts, as I described earlier on, the general
26 set of circumstances on which the account is based
27 and in respect to the investment decision that has
28 to be made for this purpose, not a great deal of
29 trading goes on; that is, not trading that is brought
30 about by a fluctuation in the interest rate. There

Does the trust company actually have with complete discretion, and not having to talk with any person at all, then it would be very much less than that.

COMMISSIONER GIBSON: Now, when you have

what you would regard as an important change in the finance environment, such as this bank rate announcement made about a month ago, you have a meeting of your senior investment committee at a time like that?

MR. HODGSON: Yes.

COMMISSIONER GIBSON: And you decide,

or come to some conclusion as to what this might mean from your point of view, and from the point of view of the people you represent. What do you do? Do you call in certain people? What is the next mechanical step in working this out?

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1 will always be some trading carried on because of
2 the peculiarities of the investment market. It
3 might be possible to buy a bond of equivalent quality,
4 as we determine it, at a cheaper price to increase
5 the yield and sell another. The operation of sinking
6 funds and corporate securities sometimes puts the
7 price higher than otherwise. This kind of trading
8 goes on all the time. We trade by perception at
9 all stages in the cycle to improve the demands and
10 requirements of that specific account, but not a
11 great deal takes place in those accounts, or for
12 that matter in almost any estate and trust account
13 because of the particular machinations of the cycle.

14 COMMISSIONER GIBSON: There must be times
15 when you say to yourself, or your investment committee:
16 we are not so keen on the bond market; we would like
17 to go into stocks to a greater extent or vice versa,
18 or perhaps you consider that Canada's bonds are too
19 high in relation to first grade corporate bonds or
20 provincial bonds. How do you translate these things
21 into account management?

22 MR. KERLIN: I think in most companies
23 there would be daily meetings to discuss changes in
24 the investment scene. We do not wait for the regular
25 meeting of the investment committee to discuss these
26 things. They are discussed daily. Decisions which
27 are made by the general policy committee, or the
28 senior officers discussing these matters daily are
29 transmitted to the investment department who in turn
30 put them into effect, where this is necessary or



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senior officers discussing these matters daily are
transmitted to the investment department who in turn
put them into effect, where this is necessary or



desirable in respect to the accounts we administer.

COMMISSIONER GIBSON: But you deal with that particular account fairly rapidly?

MR. KERLIN: Yes, indeed. In other words, it is a daily basis.

COMMISSIONER LEMAN: What I would like to clarify, though, is whether you consider that you can switch securities from one account to the other. Is that your feeling about it, that you must go through the market for each account in buying and selling? Let us imagine a situation where, after reviewing various considerations that might come up you decided that a certain type of security should be put into account A which account Y has, and which it should sell, you cannot make the switch between the two accounts?



...to the account as administrator
...and you are the
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MR. KERLIN: Yes, indeed. In other

words, it is a daily basis.

COMMISSIONER LEWIS: What I would like

to clarify, though, is whether you consider that
you can switch securities from one account to the
other. Is that your feeling about it, that you
must go through the market for each account in buying
and selling? Let us imagine a situation where,
after reviewing various considerations that might
come up you decided that a certain type of security
should be put into account A which account Y has,
and you should sell, you would sell the securities
between the two accounts?



1 MR. HODGSON: Well, our answer is no, it
2 does go through the market. In answer to your first
3 question, yes.

4 COMMISSIONER LEMAN: Is this a problem
5 of conflicts of interests or what is it?

6 MR. HODGSON: I suppose that one of the
7 basic points would be to determine the market price.

8 COMMISSIONER LEMAN: Well, suppose that
9 you were buying 100 shares of a certain stock for
10 other accounts at the same time; you felt that account
11 X should have 100 shares of that stock, will the 100
12 shares you can buy in the market pretty well determine
13 what the market price is for that 100 shares?

14 MR. HODGSON: The fact of the matter is
15 it was not on the market and that 100 shares may have
16 gone through at that price, but the next 100 might not.

17 COMMISSIONER LEMAN: So, you cannot visualize
18 any advantage of efficiency for your clients and savings,
19 for instance, on brokerage fees to reduce the net number
20 of transactions that need to be made in a day?

21 MR. BENSON: That kind of matching of
22 the opportunity for it would occur very seldom, in
23 any event, and even where it did it becomes almost
24 essential to produce to the court on the passing of
25 the accounts vouchers to show that these assets have
26 been sold or acquired at a market price, and therefore
27 that can only be established by their sale or purchase
28 in the market.

29 COMMISSIONER LEMAN: Well, therefore, am
30 I right in concluding on the same day he might be selling



MR. HODGSON: Well, our answer is no, if

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that can only be established by their sale or purchase

in the market.

COMMISSIONER LEMAN: Well, therefore, am

I able in dealing on the stock to be able to sell



1 the same number of shares to a company that you are
2 buying for another?

3 MR. BENSON: That is correct.

4 MR. BEAN: I think it is possible but
5 highly improbable.

6 COMMISSIONER BROWN: I wonder if I could
7 ask a question in connection with this restricted or
8 unrestricted investment power; that is, if you would
9 care to give us an opinion as to what they find

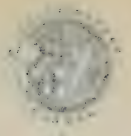
10 restrictive or too restrictive in insurance company
11 qualified securities. There must be a reason for
12 requesting powers beyond this.

13 MR. HODGSON: Well, would you like to
14 narrow the question down to some specific class of
15 accounts, Mr. Brown?

16 COMMISSIONER BROWN: Let us put it this
17 way; in paragraph 2.29 you say that the companies
18 generally recommend an unrestricted investment power
19 as well, and my question is that in view of the fact
20 up until a few years ago you had generally accepted
21 wide power for securities that qualified for life
22 insurance company investments, in what way do you
23 find that qualification too restrictive?

24 MR. HODGSON: It is generally speaking,
25 except for peculiarities, probably not; in other
26 words, the investment restriction is not onerous.
27 The question of the percentages, quantitative
28 percentages of the various classes of securities,
29 and if you were taking, for example, pension trusts.

30 COMMISSIONER BROWN: We are talking about



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COMMISSIONER BROWN: We are talking about



1 wills here, and generally speaking it is provided that
2 the percentage restrictions do not apply.

3 MR. HODGSON: Yes, generally speaking I
4 do not think the normal state would be at all restricted
5 in its application under the Canadian British Insurance
6 Companies Act.

7 COMMISSIONER BROWN: I was wondering why
8 the general request that it be unrestricted, because
9 this does give some element of protection from the
10 point of view of the testator.

11 MR. BEAN: I think the real point there is
12 that this is a conversation which you visualize between
13 the person making his will and some person with whom
14 he is consulting, and obviously we would suggest that
15 this be made out unrestricted rather than applied to
16 the insurance company type of investments. Admittedly
17 by and large undoubtedly we will be applying in the
18 normal course of events any stocks purchased -- this
19 is the point I think you are looking at -- any of
20 these stocks purchased will qualify under the Insurance
21 Act, and there are occasions which arise in the
22 administration of an estate where ^{but} some particular
23 reason -- usually a family reason -- there might
24 be some need by an estate for investing in one of
25 the children's -- one of the beneficiaries has a
26 problem in connection with business which normally
27 would not be the sort of thing that could qualify
28 under the Insurance Act and which undoubtedly the
29 testator would have desired the executor to look after,
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1 and that can be handled in that way; that is, to look
2 after unusual events and you cannot foresee everything
3 in preparing a document, and this takes care of the
4 unforeseen things where you might wish to go beyond
5 the normal course of investment.

6 MR. GREGORY: May I say that my personal
7 feeling is that the Insurance Companies Act looks
8 at the past record rather than possibilities of the
9 future, and I think that is the basic difficulty with
10 it. You would not have been able to buy under that
11 Act some of the best investments in the last while,
12 such as the pipeline; you could not buy Algoma Steel
13 because of the nature of that company being able to
14 do without paying dividends, and there are many
15 cases like that.

16 THE CHAIRMAN: You are talking about the
17 big pipe line?

18 MR. GREGORY: Interprovincial.

19 THE CHAIRMAN: That is, the oil pipeline?

20 MR. GREGORY: Yes.

21 THE CHAIRMAN: You are not talking about
22 Trans-Canada Gas Pipeline?

23 MR. GREGORY: No, this applies to Trans-
24 Canada too.

25 THE CHAIRMAN: Do you know of any groups
26 that have bought any shares of that stock for part
27 of the original issue?

28 MR. GREGORY: I do not know of any.

29 THE CHAIRMAN: Do trust companies ever
30 buy stocks ---



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1 MR. GREGORY: They are not permitted to
2 now.

3 THE CHAIRMAN: But if you were permitted
4 to buy common stocks you would buy them, would you not?

5 MR. GREGORY: Under this particular Act
6 we are talking about?

7 THE CHAIRMAN: Yes, I thought on the
8 assumption that you were not restricted either by
9 will---

10 MR. GREGORY: You are talking about ---

11 THE CHAIRMAN: Assuming you were not restricted;
12 where companies have not been restricted, have they
13 bought original issue?

14 MR. GREGORY: I will leave that to some
15 of the other companies to say.

16 COMMISSIONER BROWN: This is rather interesting
17 because you have two different viewpoints. Mr. Bean
18 suggests you would find an insurance company restricted
19 too much on the question of the surviving family problem
20 and Mr. Gregory is suggesting that it is for a wider
21 policy basis so that you have greater freedom. There
22 is a difference in emphasis on those two points of view.

23 MR. GREGORY: You asked me why we objected
24 to that restriction and I was just offering my personal
25 feeling; I think it looks the wrong way. The Act
26 is not set on principle -- and I am just expressing
27 a personal opinion only -- and there are a lot of
28 investments that cannot be bought because of the
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1 THE CHAIRMAN: All I was interested in was
2 how far you would go in the sort of investments that
3 might not be permitted by the Insurance Act but would
4 be permitted to you if you were unrestricted?

5 MR. BENSON: I am sure many companies have
6 the idea which ours has ---

7 THE CHAIRMAN: Of buying original issues?

8 MR. BENSON: Yes, where we had unrestricted
9 power, and I should say in answer to Mr. Brown's
10 question that by and large the provisions of the
11 Insurance Act would represent reasonable latitude
12 for most of the investment problems in estates
13 but if you were advising the testator on how to draw
14 his will you would certainly not recommend just for
15 that reason that he put on arbitrary restrictions
16 which all legislations must provide and which obviously
17 can create disadvantages and unreasonable restrictions
18 in some particular situations. This is just a case
19 of greater elasticity and flexibility and I would
20 think that generally speaking investment policy under
21 an unrestricted power would be very similar to one --
22 by any company -- would be very similar to one under
23 the power given under the Insurance Act.

24 THE CHAIRMAN: That does not give power
25 to buy original issues of common stocks, does it?

26 MR. BENSON: You are more narrowly restricted
27 and that is another reason for eliminating the arbitrary
28 requirements of any legislation.

29 THE CHAIRMAN: You see no reason why a trust
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THE CHAIRMAN: You see no reason why a trust



1 company should not purchase original issues?

2 MR. BENSON: No, as long as it has the
3 investment organization to satisfy itself as to the in-
4 vestment worthiness of an issue I see no reason
5 why you ---

6 THE CHAIRMAN: Taking all the circumstances
7 into consideration you decided that it is reasonable
8 and prudent in that particular asset and you are
9 quite prepared to do it?

10 Do the trust companies engage very much
11 in market trading of securities?

12 MR. BEAN: I presume you mean with the
13 day to day trading?

14 THE CHAIRMAN: Yes.

15 MR. BEAN: I think the answer to that,
16 as Mr. Hodgson hit it in his reply earlier is that
17 we do not; basically we hold until maturity or until
18 such time as there is some apparent change in the
19 intrinsic value of its securities or it is a matter
20 of trading in dollars; I think very few companies
21 do it to any extent.

22 THE CHAIRMAN: You mention in paragraph
23 2.36 liquidity and it suggests that adequate liquidity
24 is an important consideration in deciding asset
25 distribution. Would you tell us what you measure
26 the adequacy of a situation in respect of liquidity.
27 I notice that you mention mortgage investments, you
28 mention five year mortgage investments, where the
29 average liquidity would appear to be about $2\frac{1}{2}$ years.
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I notice that you mention mortgage investments, you

mention five year mortgage investments, where the

average liquidity would appear to be about 2 1/2 years.



1 What considerations apply in determining the liquidity
2 of your position in administering an estate?

3 MR. BEAN: Well, Mr. Chairman, the first
4 problem is that I think most of us realize in
5 administering an estate that we have to be sure it
6 is sufficiently liquid to pay off any duties which
7 arise, and up to five years in many cases, so there
8 would have to be funds provided or coming out of
9 the account to take care of such things as that.

10 There are frequently distributions at various times
11 and that affects what we call the liquidity of that
12 particular estate, so that you can meet these dis-
13 tributions and pay them out without having to make
14 a sacrifice, and there are many cases in which the
15 life tenant may have powers of encroachment
16 upon the principal where you are gradually paying
17 out the principal of that particular estate, and
18 that is also a factor in the liquidity.

19 COMMISSIONER GIBSON: Can I ask another
20 question about the trading activities? You have
21 a large proportion of the assets under administration
22 in an estate, and they are high grade marketable
23 assets -- Dominion of Canada bonds, and so on -- and
24 it was suggested that there were times when you might
25 switch out of one into another and you can get a better
26 deal; is this not a fairly widespread practice, or
27 do some companies do a lot of trading and other
28 companies do very little trading? These are marketable
29 securities we are talking about.
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These considerations apply in many cases.

THE PROBLEM OF ADMINISTERING AN ESTATE

MR. JUSTICE GIBSON: Now, what is the problem?

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1 MR. BEAN: I will put it this way; that
2 when I replied to the Chairman on this question of
3 trading I was speaking of trading for profit in
4 terms of buying at a price and selling at another
5 price, in that area, and what you were referring
6 to, or Mr. Hodgson was referring to was trading
7 to improve one's yield and position, and that certainly
8 is done; in the review of estates in trust there
9 is a continuous survey made to see if there are
10 alternatives that will provide the same degree
11 of security with the same additional benefit
12 to the particular estate or trust. That is done.

13 COMMISSIONER GIBSON: There is quite a
14 bit of switching with this in mind?

15 MR. BEAN: Well, it is hard to determine
16 the extent of it, and I do not know -- there is
17 certainly some of it done. Obviously the market
18 over a period of time works against you because
19 when these situations do occur in the market -- as
20 we all know -- everyone cannot do it, but there is
21 a tendency towards that use.

22 COMMISSIONER GIBSON: It is a fact that
23 some insurance companies do it with a certain amount
24 of success. It is the process of trying to improve
25 the yield. Have you any inhibitions about selling
26 assets of an estate at a loss to improve the yield?

27 MR. HODGSON: This is a very important
28 point and one of essentially basic difficulties.

29 MR. BENSON: I will say that it is not
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MR. BEAN: I am not in this way, that

some of the things that I have mentioned

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point and one of essentially basic difficulties.

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1 a question of inhibition, it is a question of law
2 because where we amortize investment purchases for
3 an estate, to build up the portfolio, in practically
4 every estate the reason you do this is because there
5 are two different interests in the trust; one an
6 income interest of some living person and the other
7 is the remainder interest of the capital of the estate
8 of some person who is perhaps an infant or not even
9 born.

10 Now, you cannot obviously at the expense
11 of capital take a loss in order to improve the economy
12 for the life tenant, and the problem of keeping the
13 balance even between these two interests is one
14 that has to control and limit the question of the
15 switching of securities.

16 COMMISSIONER GIBSON: So, it is basically
17 an accounting problem, is it not?

18 MR. BENSON: It is more than an accounting,
19 it is a reality; one interest would benefit at another's
20 expense.

21 COMMISSIONER LEMAN: Is that necessarily
22 true? It is not necessarily true, is it?

23 MR. BENSON: It is true in most cases;
24 it is very seldom, except when you have a maturity
25 approaching and you are replacing for a longer yield,
26 but it is very seldom that you have a situation --
27 so our investment people tell me -- where you can
28 avoid the situation of doing it at the expense of one
29 or other interest.

30 COMMISSIONER GIBSON: In other words, you do



...is a question of ...
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an estate, to build up the portfolio, in practically every estate the reason you do this is because there

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COMMISSIONER GIBSON: In other words, you do



1 not know when the immediate beneficiary is going to
2 pass away and someone else take over the interest
3 and at that particular time may benefit one or the
4 other.

5 MR. BENSON: The life tenant is receiving
6 only the yield of that investment.

7 COMMISSIONER GIBSON: But does this mean,
8 then, that you are fairly limited in the amount of
9 switching you can do; let us say the trading that
10 is carried on?

11 MR. BENSON: It is a great disappointment
12 to the investment dealers who have been switching
13 for the testator every week for a good many years;
14 that is, after the portfolio has been established,
15 a weekly call is really unprofitable.

16 COMMISSIONER BROWN: May I be permitted
17 to agree with that.

18 COMMISSIONER GIBSON: So, basically when
19 you are trading to improve yield there is a proviso
20 that it does not involve substantial capital losses?

21 MR. PEMBROKE: No, but to put it the
22 other way around and say there is no conflict of
23 interest which rises between the life tenants as
24 the result of that switch, and that is the real thing.
25 You can do it where there is -- on occasion when
26 there is a difference in values, but the basic
27 thing is that there cannot be any conflict and where
28 conflict does arise you are inhibited and prohibited.

29 COMMISSIONER BROWN: If there is no con-
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COMMISSIONER BROWN: If there is no con-



1 flict you can overcome with accounting procedures, is
2 that it?

3 MR. PEMBROKE: Yes, if there is no conflict.

4 COMMISSIONER BROWN: But this is occasionally
5 possible?

6 MR. PEMBROKE: That is right.

7 COMMISSIONER LEMAN: Suppose that a testator
8 in his will decides to give you the broadest possible
9 investment powers included in that will that he would
10 permit you to value -- despite the fact he had this
11 conflict of interest with the life tenant -- he would
12 allow you to value the asset at any time on market
13 instead of book, would that change your outlook?



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1 THE CHAIRMAN: Has anybody ever thought of
2 such a provision so far?

3 MR. BEAN: What would you think of it, Mr.
4 Chairman?

5 THE CHAIRMAN: It is a new suggestion.

6 MR. FARIBAULT: I don't think it would make
7 any difference. It would have to be worded quite
8 differently, but just a matter of values would not
9 increase your discretion.

10 COMMISSIONER LEMAN: Except on market perhaps
11 you are not moving any capital for the remainderman.

12 MR. FARIBAULT: It would have to be explicit.
13 You could not imply it.

14 COMMISSIONER LEMAN: At that time you mean
15 you are not sacrificing any capital value?

16 MR. FARIBAULT: Any valuation is just taken
17 at one moment. Then, you would have to take a yield
18 to account for the future. In the case of the province
19 of Quebec where you have a substitution you could not
20 do that because the obligation is the precise
21 proportion which you have received. You would have
22 to have something very different in order to be
23 able to do that.

24 COMMISSIONER BROWN: In a falling bond market
25 this would mean you would be inhibited from changing
26 your proportion of bonds and stocks?

27 MR. BENSON: Questions of equity could still
28 result in a change in the portfolio.

29 MR. FARIBAULT: Those are the cases where
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1 to balance the conditions one way or another and find
2 that you have to sell but you don't like it -- this
3 is assuming a power which is probably wider than the
4 legislature would have given you.

5 COMMISSIONER BROWN: In this case you are
6 probably sacrificing income as well from the point of
7 view of the life tenant?

8 MR. FARIBAULT: If you sacrifice income for
9 a time, it is a question of maturity.

10 COMMISSIONER GIBSON: If you were in a situation
11 in a falling bond market and you can switch from a
12 security which had, say, seven years to run to one
13 which had 5 or 6 or 7 years to run and make up the loss
14 of the first one in four years -- and there have been
15 cases like that from time to time -- to accept a heavy
16 book loss when you sell, you would not do that?

17 MR. BENSON: No, because we would be making
18 up the loss for the person who didn't have the loss.

19 COMMISSIONER GIBSON: But you would not
20 know because it would be over the next four years.

21 MR. FARIBAULT: There may be a deficit the
22 next year.

23 COMMISSIONER GIBSON: That is right. This
24 means you are probably limited in what you can do in
25 trying to improve yield?

26 COMMISSIONER BROWN: Have any companies
27 developed a wording that will overcome these problems?
28 This is another way of phrasing Mr. Leman's question.

29 MR. GODWIN: If I may add something there,
30 Mr. Chairman, we have been discussing the strict legal



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1 technicalities of the matter, but these situations
2 might resolve themselves as a family matter: A widow
3 with children, and the children want the widow to
4 occupy the same status in life as her husband during
5 his life, and they ask for the estate to live. So,
6 there are situations where in a large estate they might
7 say, "I don't need so much income. Let us invest in
8 stocks." In that situation it is perfectly all right
9 to go ahead on it, but I felt we should bring this
10 into the open because there are many situations like
11 that where we have to do that, and most trust companies
12 consult with the family from time to time in a situation
13 where they think if they take a certain course of action
14 then they can benefit the family as a whole.

15 COMMISSIONER MACKINTOSH: Do the companies
16 feel free to match a security which they want to sell
17 at a loss with one they can sell at a profit?

18 MR. KNOWLTON: That does not help us because
19 you have two different parties interested. It is not
20 the same as an insurance company.

21 COMMISSIONER MACKINTOSH: Then, may I ask
22 another question: If you have a security at which
23 the market stands considerably over your book value,
24 and you think for some reason a switch might be
25 desirable, are you inhibited from selling that because
26 the capital -- that excess of market value belongs
27 to the remainderman or is destined to the remainder-
28 man?

29 MR. KNOWLTON: Not as long as you are not
30 incurring the income of the life tenant.



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MR. KNOWLTON: Not as long as you are not incurring the income of the life tenant.



1 COMMISSIONER MACKINTOSH: Why are you inhibited
2 one way and not another -- simply by the convention of
3 your portfolio?

4 MR. KNOWLTON: No, I think it is the reason
5 that simply from the fact one person is going to take
6 a loss in the account. If you have a bond considerably
7 above your book value, then the yield is less than
8 what you purchased it for. No doubt you could sell
9 that bond and buy another bond which would give a
10 yield of more than that to the life tenant. So,
11 you are keeping the scales even.

12 COMMISSIONER GIBSON: You have shifted some
13 of the capital into income?

14 MR. KNOWLTON: Yes.

15 COMMISSIONER GIBSON: And therefore it
16 affects the balance between the two parties?

17 MR. KNOWLTON: That is quite true; each open
18 transaction, you have two different parties interested:
19 One only in income and the other only in capital. If
20 you did not have to amortize, you would not meet this
21 point.

22 COMMISSIONER LEMAN: Except at that point of
23 time, suppose you are switching from a $3\frac{1}{2}$ per cent
24 bond with a certain maturity to a $4\frac{1}{2}$ per cent bond
25 with about the same maturity, it may be on the market
26 those two bonds have the same value.

27 MR. KNOWLTON: Then there would be no reason
28 why the switch could not be made.

29 COMMISSIONER LEMAN: If you work from book
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COMMISSIONER LEWIS: If you work from book

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1 which may be down, say, to 87, and the other bond
2 may be much higher -- should be much higher if it is
3 about the same equity. You would record a book loss,
4 but if you had your eye strictly on market values on
5 the day on which you make the transaction you may figure
6 you may have made no loss for the remainderman?

7 MR. KNOWLTON: I don't see how that could
8 occur. If you take a book loss it is an actual loss
9 as far as the remainderman is concerned, and he cannot
10 benefit from the higher yield.

11 COMMISSIONER LEMAN: There may be a presumption
12 that later that $4\frac{1}{2}$ per cent bond will command a higher
13 market value than the $3\frac{1}{2}$ per cent bond whenever it is
14 realized.

15 MR. BENSON: There is another factor comes
16 in there. Under the surveillance of the Chairman I
17 might quote what we feel is the rule that governs a
18 trustee in investment, and that is that he must exercise
19 the degree of care not of a person managing his own
20 investments, but make investments of a speculative
21 character to a degree of care required of an ordinary
22 prudent man who invests for the benefit of other people
23 for whom he feels morally bound to provide, and I
24 think this question of speculating on the future of
25 some of these investments comes into this to some
26 extent.

27 COMMISSIONER LEMAN: I am sure you realize
28 what we are probing for here -- responsiveness to
29 market conditions, and we want to see how this very
30 large block of funds is responsive or is not responsive



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COMMISSIONER LEMAN: I am sure you realize
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1 to market conditions.

2 COMMISSIONER BROWN: If you have power to
3 encroach on behalf of the life tenant, does this
4 change your attitude?

5 MR. BENSON: It could very easily. If it
6 seemed to appear advisable on other accounts, that
7 fact -- which would meet the difficulty of the
8 amortization rule -- that fact could make it possible
9 in a particular case.

10 COMMISSIONER MACKINTOSH: The estate tax
11 having already done the damage?

12 MR. BEAN: Right.

13 COMMISSIONER GIBSON: But in general you would
14 say there is comparatively little trading of this
15 character? From your general observations today it
16 would seem to me you are pretty limited?

17 MR. BEAN: I think that is true.

18 THE CHAIRMAN: It would be a very exceptional
19 case where you might do it? I think in the vast majority
20 of cases it would be highly dangerous, from what you
21 have said, to tamper.

22 MR. HUNGERFORD: There are not the same
23 difficulties in pension trust accounts and agency
24 accounts. There is considerable trading in these
25 two categories.

26 THE CHAIRMAN: In paragraph 233 you mention
27 maturities. Would you elaborate on that a bit? What
28 sort of considerations do you take into account in
29 deciding on various types of maturities -- various
30 lengths of maturities? I think you mentioned some.



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1 MR. BEAN: I think, Mr. Chairman, they are
2 fairly well covered by liquidity.

3 THE CHAIRMAN: Pardon?

4 MR. BEAN: ... in the discussion on liquidity,
5 because much the same factors apply.

6 THE CHAIRMAN: If the problem is really the
7 same problem ...?

8 MR. BEAN: It is the same problem -- meeting
9 distributions at various times during the administration
10 of that estate.

11 THE CHAIRMAN: Yes. In respect of asset
12 distribution, paragraph 235, you have at page 51 the
13 distribution in very broad categories of the assets
14 of estates, trusts and agencies. I understood at an
15 earlier stage that these values were generally book
16 values determined at the date of probate in the cases
17 of a will, or at the date of settlement in the cases
18 of other types of trusts. The real figure, according
19 to present day values, would be very much higher
20 than the 7 billion 713 million?

21 MR. BEAN: Certainly in the area of stocks
22 and real estate this is probably an unrealistic figure
23 as to the market values today.

24 THE CHAIRMAN: You have no idea of what it
25 might be -- in a very rough and ready way?

26 MR. BENSON: The sampling that is being
27 conducted may shed some light on that, we hope.

28 MR. BEAN: That is one of the purposes of
29 that sampling.

30 MR. GODWIN: Also it is the practice of some



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1 companies on agency or trust accounts to record an
2 asset at merely a dollar value for purposes of book
3 control.

4 MR. GREGORY: On the other hand, Mr. Chairman,
5 the bonds may be considerably lower on the market.

6 THE CHAIRMAN: Yes. Well, I think it might
7 offset it to some extent. You mention your recommendation
8 as to loosening restrictions to some extent so that
9 you might invest in common stocks, and you suggest
10 a ceiling of 35 per cent: How do you come to that
11 figure? Is there any particular reason for that
12 35 per cent?

13 MR. BEAN: Mr. Chairman, the 35 per cent
14 applies not solely to common stocks; it applies to
15 corporate obligations or shares which are not now
16 eligible under the Trustee Act.

17 THE CHAIRMAN: Yes, quite.

18 MR. BEAN: But, as you suggest, there is no
19 further limitation within our recommendation, so it
20 could conceivably lead to the 35 per cent of common
21 stock.

22 THE CHAIRMAN: I was wondering whether you
23 thought 35 per cent was a reasonable restriction; if
24 you were permitted to get into that sort of investment
25 that you would not in practice contemplate going beyond
26 that, in any event?

27 MR. BEAN: Our thinking was that it was a
28 reasonable figure to work toward. There are conceivably
29 cases where it may be advisable to have more than
30 35 per cent, but on the other hand these Trustee Acts



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1 as the Chairman said earlier, apply to all trustees
2 not only to corporate trustees, and it was felt in
3 the light of conditions that 35 per cent would be
4 a reasonable figure.

5 MR. HUNGERFORD: I believe that was the
6 figure adopted by most of the States and I think
7 we have perhaps taken it from that.

8 MR. BEAN: Some of those have gone up too.

9 THE CHAIRMAN: We were told a few days
10 ago that the United States went up as high as 70 per
11 cent in some of them.

12 MR. BEAN: Some States have no restriction.

13 THE CHAIRMAN: Some States are unrestricted.

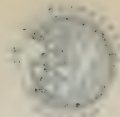
14 MR. BEAN: That is right.

15 THE CHAIRMAN: I think this was the way it
16 was put, that where they are not subject to restriction
17 in the United States in certain jurisdictions that they
18 go as high as 70 per cent in practice. You think,
19 however, that to go to 35 per cent would be about
20 as far as the prudent man should go? Is that the
21 reason for increasing that percentage?

22 MR. BEAN: Yes, and I think that is tempered
23 as well by your earlier comment about the difficulty
24 of convincing members of various legislatures that
25 any man who may be a trustee might accept the power
26 to go beyond 35 per cent.

27 THE CHAIRMAN: That is one thing I can under-
28 stand.

29 MR. GREGORY: This is political, Mr. Chairman,
30 rather than economic.



at the Chairman said earlier, apply to all trustees not only to corporate trustees, and it was felt in the light of conditions that 35 per cent would be a reasonable figure.

MR. HUNGERFORD: I believe that was the figure adopted by most of the States and I think we have perhaps taken it from that.

MR. BEAN: Some of those have gone up too.

THE CHAIRMAN: We were told a few days ago that the United States went up as high as 70 per cent in some of them.

MR. BEAN: Some States have no restriction.

THE CHAIRMAN: Some States are unrestricted.

MR. BEAN: That is right.

THE CHAIRMAN: I think this was the way it

was put, that where they are not subject to restriction in the United States in certain jurisdictions that they go as high as 70 per cent in practice. You think, however, that to go to 35 per cent would be about as far as the prudent men should go? Is that the reason for increasing that percentage?

MR. BEAN: Yes, and I think that is tempered as well by your earlier comment about the difficulty of convincing members of various legislatures that any man who may be a trustee might accept the power to go beyond 35 per cent.

THE CHAIRMAN: That is one thing I can under-

stand.

MR. GREGORY: This is political, Mr. Chairman.



1 THE CHAIRMAN: Perhaps the members of the
2 legislature who examined this proposal are prudent
3 men too.

4 MR. GREGORY: That is quite a wide assumption.

5 COMMISSIONER LEMAN: Do you in general believe
6 it is a proper thing for the legislature to set these
7 limits? In general should there be limits? I think
8 you said earlier that quite often the law looks at
9 the past rather than looking forward. Circumstances
10 change, the legislature may decide that a certain
11 proportion of certain types of investments should bear
12 a ceiling, and then the legislator, himself, changes
13 the conditions on you by changing the fiscal policy.
14 So, do you believe in general it is a proper exercise
15 of authority by the legislature to put certain
16 restrictions on types, or would it be better to leave
17 it wide open and just supervise the operation of trust
18 companies properly?

19 MR. PEMBROKE: We are referring in this 35
20 per cent, of course, to a desire to have Trustee Acts
21 broadened to permit investment in stocks where there
22 are trustee provisions. Only two of the provinces
23 at the present time will allow any investment whatever
24 in preferred or common stocks. Nova Scotia has gone
25 as high as 15 per cent. My own feeling is that this
26 35 is an attempt to at least get a bigger foot in
27 the door. Personally, I would quite agree with you
28 it would be wiser if trustees were not restricted in
29 any shape.

30 COMMISSIONER BROWN: There has been the other



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1 point of view put forward that such Trustee Acts apply
2 not only to trust companies but also to individuals,
3 that they should be limited from the point of view
4 that anybody who has an estate of any size, presumably,
5 is going to take proper care of it and he can go outside
6 the Trustee Act in his own disposition; but for the
7 protection of the common person, where the estate may
8 be administered by a relative, it is proper to have
9 restrictions. Would you like to comment on this in
10 view of the fact you have in your brief the fact
11 that almost all estates that come to you come to you
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1 MR. PEMBROKE: The best thing would be to
2 provide by legislation that no individual should be
3 appointed, it should be a trust company.

4 COMMISSIONER BROWN: I assumed that would be
5 your answer.

6 MR. BEAN: Or make it illegal for him to die
7 without a will.

8 MR. BENSON: Actually this was the position
9 taken by the Ontario legislature 10 years ago when
10 the Association made a recommendation about enlarging
11 investment powers and at that time we suggested a
12 limitation of 35 per cent of the amount of the trust
13 in stocks and obligations of corporations. The
14 Ontario legislature at that time refused to make a
15 change and the argument largely was that since it would
16 apply also to individuals it was too great a risk to
17 public security, to widen it to that extent.

18 The fact that the 35 per cent suggestion
19 appealed to them, however, and that that is a judgment
20 of the legislature also, lies in the amendment to the
21 Ontario Act last year which permits exactly this kind
22 of investment subject to the approval of a court.

23 COMMISSIONER BROWN: In other words, the
24 implication being the court will give it providing the
25 trustee is governed in certain other restrictive
26 covenants?

27 MR. BENSON: Yes.

28 THE CHAIRMAN: The approval of the court would
29 be necessary whether it was a trust company or an
30 individual?



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2 THE CHAIRMAN: I think the legislature --
3 I recall the situation very vividly. I remember one
4 member objected very strenuously to giving the trust
5 company more powers because at one time he had had
6 trouble getting some of his money out of the bank.

7 MR. BEAN: That is an awful situation.

8 MR. FARIBAULT: I might say, Mr. Chairman,
9 that in the Province of Quebec trust companies do not
10 get the majority of estates put through them. It is
11 definitely the other way round. This argument would
12 be very cogent there.

13 THE CHAIRMAN: I think they are getting more
14 and more of them in the Province of Ontario.

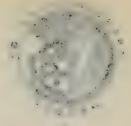
15 MR. FARIBAULT: In Quebec it is the other way
16 round.

17 THE CHAIRMAN: But there is reluctance to
18 make an exception for corporations, especially big
19 corporations on the part of the legislature and that
20 is one of the difficulties. I do not know how they
21 would deal with the question. I have difficulty in
22 imagining what factors would be taken into consideration.
23 However, that will no doubt arise when the law comes
24 before them.

25 COMMISSIONER LEMAN: Is there any proof that
26 a corporation is more prudent than an individual?

27 MR. HUNGERFORD: The increased amount of business
28 the trust companies are getting, I suppose that is
29 proof.

30 MR. BEAN: At least some experts think so.



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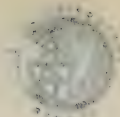


1 COMMISSIONER LEMAN: Or is it rather because
2 there is often some factor of a conflict of interest
3 with an individual executor if he happens to be, for
4 instance, an interested party at the same time?

5 MR. GREGORY: I can imagine a lot of personal
6 executors would be very good but I think your imagination
7 would also go so far as to realize that lots of them
8 would be very bad if they got into common stocks.

9 THE CHAIRMAN: Well, generally, when speaking
10 of a corporation the decision is not a decision --
11 in reality it is a decision of a group of men in the
12 trust company. The procedure has been described here.
13 You have a committee and you have men who have
14 experience and it is also, I assume --- or perhaps I
15 had better ask this question: Trust companies generally
16 must have a staff who have become expert in analyzing
17 financial statements and various investment problems? --

18 MR. BENSON: We have set out at page 9 of the
19 brief at some length the way the investment department
20 is organized in the trust company and we emphasize that
21 because in the minds of the average testator the question
22 of the investment efficiency of the trust company seems
23 to be the strongest motive and most of our property
24 management now, which is our main function, is now
25 investment management. Real estate in estates, insurance
26 and other assets are becoming a much smaller proportion
27 in relation to investments so these very elaborate
28 organizations that most of the companies have set up
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2 MR. BEAN: That is undoubtedly the keystone
3 of our business -- successful investment management.

4 THE CHAIRMAN: Yes of course. As to pool
5 trust funds legislation was provided with respect to
6 that some years ago and you say in paragraph 2.38
7 that the advantages hoped for when the pool trust fund
8 was first introduced have in fact been realized.
9 Perhaps you can elaborate on that a bit.

10 MR. BEAN: Mr. Chairman, all companies have not
11 -- a number of companies have utilized the power of
12 setting up a common trust fund. I think there are a
13 number of restricted common trust funds which means
14 that they are confined to trustee investment and there
15 are some unrestricted ones which go beyond that point
16 where there has to be specific authority in the trust
17 document or will to permit the trustee to invest in
18 the unrestricted one or the restricted one but the
19 difficulty comes particularly in restricted common
20 trust fund, again as a matter of accounting where you
21 find that it becomes very difficult to put additional
22 monies into the common trust fund when the unit, as
23 it were, because it is treated the same way as a mutual
24 fund and ^{valued} ~~has varied~~ periodically -- where a unit is
25 below an initial starting unit in a fund, again you
26 run into this awful problem of life tenant and remainder-
27 man. Most of us have discovered in places where there
28 is conflict between the two where it could be utilized
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1 bond market and high interest rates, during those
2 periods in which there is a real difference between
3 the original value of the unit and the ^{to} day's market
4 value of the unit, it becomes very difficult to put
5 funds into it. It has not, as we imply here, lived
6 up to its promise.

7 Certainly from the standpoint of the trust
8 companies we would like to use it more because it
9 does reduce our problems somewhat for smaller balances
10 in estates.

11 COMMISSIONER BROWN: Could I clarify a problem
12 there, at least my understanding of it? Do you mean
13 when the units are down it is difficult to switch
14 from bond units to equity units or do you mean there
15 are problems trading within the funds?

16 MR. BEAN: Among. Money on hand within the
17 common trust fund, money goes out but undoubtedly
18 monies coming in become very difficult. You cannot
19 amortize the ^{return} rate so that your monies coming in will
20 show a very low actual return on the money at the moment
21 taken at a current rate without amortizing.

22 COMMISSIONER BROWN: How about trading within
23 the fund? Do changes in price values inhibit your
24 trading within the fund because of a book value situation?

25 MR. BEAN: To some extent but I do not think
26 really to the same extent as it does in an individual
27 estate.

28 COMMISSIONER BROWN: So to some extent this
29 overcomes your accounting rigidity?

30 MR. BEAN: But it does not overcome the basic



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1 problem of making it difficult where there is a conflict
2 of interest in bringing in new monies into the common
3 trust fund and it is something which I do not think
4 was foreseen at the time but it is an operating difficulty
5 which I do not think anyone has a solution to as yet.

6 THE CHAIRMAN: You have not found a solution
7 to it?

8 MR. BEAN: No.

9 THE CHAIRMAN: It is the sort of technical
10 difficulty you mention?

11 MR. BEAN: Yes, it is just the old problem,
12 Mr. Chairman, of life tenants and remaindermen.

13 THE CHAIRMAN: But in spite of that the pool
14 trust funds are used to some extent?

15 MR. BEAN: Yes, and I believe that most of them
16 are growing slowly, the ones which are used. It has
17 not lived up to its promise.

18 THE CHAIRMAN: How are costs allocated in the
19 case of a pool trust fund?

20 MR. BEAN: There are no costs as far as the
21 ^{participating} ~~dissipating~~ trusts in the estates are concerned. We
22 obtain our remuneration in the cases where ~~our~~ monies
23 have been invested in the common trust fund from the
24 monies in the particular estate itself so that on the
25 trust fund itself there is no cost whatever.

26 THE CHAIRMAN: One problem that sometimes
27 arises is the voting of common stock where common stock
28 is held for trust funds. Paragraphs 2.39 and 2.40
29 mention that. Apparently the trust companies support
30 the existing management or the status quo. As a rule

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1 that is generally done, isn't it? There may be some
2 occasions when there are departures from that practice.

3 MR. HODGSON: There are times when contentious
4 matters come up but generally speaking at the regular
5 general meetings that are carried on where contentious
6 points are not brought up support is given to the
7 existing management. There are situations that arise
8 from time to time where we take a position of --
9 before taking a position we discuss the matter with
10 people for whom we are acting, the beneficiaries, or
11 in the case of pension trusts with interested people.

12 I do not think actually that we have taken
13 an important position with respect to the holdings
14 that we hold in this respect. It has been discussed
15 and considered, I am sure, in every company, the
16 responsibility of the trust company in having the
17 opportunity of voting the proxies. We attempt as
18 best we can to keep in companies that we think are
19 well managed. I would say there is, however, not a
20 full and complete interest to the point that we might
21 all like to take in the position of voting the common
22 stocks in companies.

23 THE CHAIRMAN: Times may arise where you would
24 take over an estate which has some shares in a company
25 which is in a bad way, and maybe some proposal of
26 re-organization or something of that kind would bring
27 on a proxy fight arising because of the decline in
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1 I suppose you take the position that you do not have
2 to vote at all?

3 MR. HODGSON: Yes, that is possible or one
4 could take the position of selling the securities.

5 THE CHAIRMAN: Rather than have a re-organization
6 brought about which may increase the values?

7 MR. HODGSON: This is a possibility. On the
8 other hand the reverse is also a possibility.

9 THE CHAIRMAN: Where a situation of that kind
10 occurred you have problems that are a little different
11 than your ordinary investment problems?

12 MR. HODGSON: Yes, that is correct.

13 THE CHAIRMAN: And considerable knowledge of
14 the particular business in question is required?

15 MR. HODGSON: That is correct.

16 THE CHAIRMAN: What does the trust company do
17 in a case of that kind? Do they usually command an
18 investment staff who would be able to deal with almost
19 anything of that kind or how do you get the necessary
20 information to enable you to make up your minds?

21 MR. HODGSON: We attempt as best we can to
22 get, or to get access to all of the information that
23 we can before making a decision. Having got such
24 information from regular sources, statistical sources
25 and also asking questions and trying to get some
26 information, the question again would be brought
27 before the investment committee for approval or discussion.
28 We are all very sensitive to any conflict of interest
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7 to think that we might more normally not engage.

8 COMMISSIONER MACKINTOSH: If there was a fight
9 between the management which had been extremely
10 conservative on dividend policies and another group
11 trying to get control to raise dividends your inhibitions
12 of the life tenants and the remaindermen would re-emerge?

13 MR. HODGSON: I agree.

14 MR. PEMBROEK: Mr. Chairman, I would like to
15 amplify that statement of Mr. Hodgson's. In my own
16 company we normally from individual clients obtain
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1 In the normal course of events at a company
2 meeting, unless there is something that we know is
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4 be given more or less automatically. However, where
5 there is a reorganization or a proxy fight our procedure
6 is quite different.

7 You mentioned, sir, the example of a company
8 that is known to be a in a rather poor way. We maintain
9 our own research department and through the channels
10 that Mr. Hodgson has mentioned, or by direct contact
11 with the company, we try to get full knowledge of what
12 is going on. If a reorganization is suggested, that
13 is considered immediately we know about it by the
14 investment committee. The investment committee then
15 makes a recommendation supported by all the available
16 data and that, if necessary, and usually it is deemed
17 necessary, goes right to the executive committee on
18 our board which meets at least once a week.

19 In those circumstances we do not hesitate
20 at all to take whatever stand we think necessary. We
21 will, if necessary, give proxies against the company.
22 If there is a fight in respect to something which we
23 think the manager is not acting in the proper way
24 we will do that. After that we will inform our
25 clients as to what we have done or, if time permits,
26 ask their authority, but we do not let it go by
27 default.

28 MR. BEAN: I would agree with Mr. Pembroke,
29 Mr. Chairman, that many of the companies would follow
30 a procedure roughly similar to that in which you use

a procedure roughly similar to that in which you use Mr. Chairman, that many of the companies would follow MR. BRAN: I would agree with Mr. Pembroke,

definite.

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You mentioned, sir, the example of a company

is quite different.

there is a reorganization on a proxy fight our procedure be given more or less automatically. However, where controversial which is coming up, that proxy would meeting, unless there is something that we know is

In the normal course of events at a company



1 all facilities at your command to find out precisely
2 what is going on in that company in that sort of a
3 situation and take some positive step to right it one
4 way or the other. It may be when you finish your
5 investigation, as Mr. Hodgson suggested, you will sell
6 them completely because it is hopeless. That is only
7 after going through every avenue to see what are the
8 prospects of doing something about it.

9 COMMISSIONER LEMAN: I would like to get a
10 better idea in respect to what you base this statement
11 made in paragraph 239. I refer to that part where you
12 suggest it would probably be beneficial if corporate
13 investors played a more dynamic role in relation to
14 the corporations in which they have important investment
15 interests. What makes you feel that that is probable?
16 Let us take one example. You explain later that in
17 the case of special circumstances where you hold a
18 very substantial stock interest in a company, you say
19 it is then usual to have one of its own officers on
20 the board. Supposing that through the management of
21 a thousand different trustee accounts you found yourself
22 with a substantial stock interest. Would the trust
23 company do anything in order to get a member of the board?

24 MR. PEMBROEK: If you refer to listed companies
25 with stocks of very wide distribution I would say the
26 answer is normally no. If you are referring to a small
27 privately owned company, the answer would be definitely
28 yes.

29 COMMISSIONER LEMAN: What are you referring to
30 when you say it would be beneficial? Is it beneficial



the committee is now working on this and

and is sure to get it done in the near future

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way or the other. It may be when you finish your

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them completely because it is hopeless. That is only

after going through every avenue to see what are the

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COMMISSIONER LEAHY: I would like to get a

better idea in respect to what you base this statement

made in paragraph 29. I refer to that part where you

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investors played a more dynamic role in relation to

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MR. PIMBROOK: If you refer to listed companies

with stocks of very wide distribution I would say the

answer is normally no. If you are referring to a small

privately owned company, the answer would be definitely

yes.

COMMISSIONER LEAHY: What are you referring to

when you say it would be beneficial? Is it beneficial



1 in the sense that having a member on the board you
2 might be better informed about the business of the
3 company in which you have investments for a large
4 number of accounts?

5 MR. PEMBROKE: I believe that, sir. Possibly
6 you might be in a position to help the company to find
7 a solution to its difficulties. If one felt that the
8 difficulties were not such that the investment should
9 be completely jetisoned, then a representative of a
10 very large shareholder might play an important and
11 constructive part in setting things right. We do not
12 as a general rule, and I think I speak for all trust
13 companies as a whole, attempt to, let me say, force
14 ourselves on the board of the larger corporation. From
15 time to time we are invited to go on to them because,
16 presumably, the company thinks we have something
17 constructive to offer.

18 MR. HUNGERFORD: I agree, Mr. Chairman, that
19 is rather a difficult clause to interpret.

20 THE CHAIRMAN: I could not hear you.

21 MR. HUNGERFORD: I think it is a difficult
22 clause to interpret. I think as far as listed companies
23 are concerned, and I am repeating perhaps what Mr.
24 Pembroke said, one could take an example; take Nickel
25 or Moore; I do not think this applies to these companies.
26 We cannot take a dynamic role. We know those companies'
27 directors and what is going on. We avail ourselves
28 of the information about these things from time to
29 time. It is unlikely that we are going to take a
30 dynamic interest in that regard. So far as the small



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28 of the information about these things from time to

29 time. It is unlikely that we are going to take a

30 dynamic interest in that regard. So far as the small



1 companies are concerned, of course, we are interested
2 in those and usually we have someone on the board.
3 That is, if it is a small unlisted company.

4 I think this is a rather difficult clause to
5 interpret. I agree with you in that.

6 THE CHAIRMAN: In paragraph 133 you mention
7 the conflict of interests which might arise because
8 of interlocking directorships. How do you resolve
9 these conflicts where an individual is a director of
10 your company and also a company in which you have some
11 investment? Perhaps you might give some sort of an
12 example as to what sort of situations arise which
13 bring about a conflict of interests under these
14 circumstances? Have you some information on that?

15 MR. HODGSON: Well, probably I could start
16 off by making a general statement and then perhaps
17 one of the heads of companies might wish to make an
18 observation.

19 With respect to the investment department and
20 the people responsible for making the investment
21 recommendations, to my knowledge there has never been
22 any influence directed toward the investment department
23 either to buy or not to buy any particular security
24 because of such a situation. This is what I think
25 is meant by "meticulously observed". If any other set
26 of circumstances were enforced I think that we would
27 not be doing the job that we all want to do and intend
28 to do. In other words, making the investment recommend-
29 ations on the merits of the securities.

30 There may be situations which arise where a

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interpret. I agree with you in that.

THE CHAIRMAN: In paragraph 133 you mention

the conflict of interests which might arise because of interlocking directorships. How do you resolve these conflicts where an individual is a director of your company and also a company in which you have some investment? Perhaps you might give some sort of an

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ations on the merits of the securities.

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1 director may be on a trust company's board and his own
2 company may be in the process of issuing securities
3 on the market. We would determine to buy or not
4 to buy such securities on the basis of their merits,
5 as we understood them. There may be other examples
6 that can be given.

7 COMMISSIONER LEMAN: You give an example in
8 paragraph 240, and you end up by saying that it is
9 irrelevant that the trustee is taking two different
10 positions. I have a little difficulty with that
11 statement.

12 MR. BEAN: I think that is the one where we might
13 be involved in preferred shares and common shares of
14 the same company in different estates. Each estate
15 has a different interest to protect. You have to vote
16 against yourself in one and for yourself in the other
17 one.

18 COMMISSIONER GIBSON: This must be extremely
19 difficult. Are these usually two different people?

20 MR. BEAN: There may be two different estates
21 involved.

22 COMMISSIONER GIBSON: But are two different
23 people against each other in the same trust company?

24 MR. BEAN: It may be that the same investment
25 department suggests to vote for one and against the
26 other because of two different estates. You have to
27 look at them as two separate entities. We are advisors
28 to the two participants to the struggle.

29 COMMISSIONER LEMAN: You say it is irrelevant;
30 irrelevant to what?



director may be on a trust company's board and his own company may be in the process of issuing securities on the market. We would determine to buy or not to buy such securities on the basis of their merits, as we understood them. There may be other examples that can be given.

COMMISSIONER LEWIS: You give an example in paragraph 240, and you end up by saying that it is irrelevant that the trustee is taking two different positions. I have a little difficulty with that statement.

MR. BEAN: I think that is the one where we might be involved in preferred shares and common shares of the same company in different estates. Each estate has a different interest to protect. You have to vote against yourself in one and for yourself in the other one.

COMMISSIONER GIBSON: This must be extremely difficult. Are there usually two different people?

MR. BEAN: There may be two different estates involved.

COMMISSIONER GIBSON: But are two different people against each other in the same trust company?

MR. BEAN: It may be that the same investment department suggests to vote for one and against the

other because of two different estates. We are always looking at them as two separate entities. We are always to the two participants to the struggle.

COMMISSIONER LEWIS: You say it is irrelevant; irrelevant to what?



1 THE CHAIRMAN: I do not quite follow you
2 there. You say there are two people voting. That is,
3 you have preferred shares and you have common shares,
4 and some representative of the trust company casts
5 a vote on behalf of the preferred shareholder and either
6 he or somebody else casts an opposite vote on behalf
7 of the common shareholder.

8 MR. BEAN: Yes.

9 THE CHAIRMAN: One cancels out the other?
10 It may not cancel out the other because it depends upon
11 the number of shares in each category.

12 MR. BENSON: To answer ^{Mr.} /Leman, I think surely
13 it is irrelevant to the business consideration and the
14 benefit of each of the two trusts as to what is going
15 to result by such action by the trustee. If we had
16 trust A and it had preferred shares and there was a
17 proposed reorganization in the making and we decided
18 it was against the interests of the preferred share-
19 holders we would vote against it. If we had a common
20 shareholder and not a preferred and our decision was
21 the same, we would vote accordingly for the common
22 shareholder. Mr. Leman, we have two trusts and we
23 have to vote in this case according to their best
24 interests. Surely the question regarding the fact that
25 we happen to be the trustee in each case is irrelevant.
26 We consider the situation solely on the basis of
27 best interest to those two beneficiaries.

28 COMMISSIONER LEMAN: You mean it is irrelevant
29 because you are doing what he would have done if he
30 had been there in person?



THE CHAIRMAN: I do not quite follow you there. You say there are two people voting. That is, you have preferred shares and you have common shares, and some representative of the trust company casts a vote on behalf of the preferred shareholder and either he or somebody else casts an opposite vote on behalf of the common shareholder.

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COMMISSIONER LEMAN: You mean it is irrelevant because you are doing what he would have done if he had been there in person?



1 MR. BENSON: Exactly.

2 MR. PEMBROKE: We are doing what two separate
3 trust companies might do. The fact that there is one
4 person, if you like, acting as trustee in both cases
5 is irrelevant to us. We consider each element on its
6 own standards.

7 COMMISSIONER LEMAN: I was just worried because
8 just above that statement you imply that it would be
9 beneficial if you could play a dynamic role. In such
10 a case your dynamic role would be inhibited a little
11 bit.

12 MR. PEMBROKE: Not necessarily. For example,
13 if a man were a director of the company, he would not
14 report it himself. The policy of the trust company
15 in respect to voting or not voting for the reorganization
16 of a company and our procedure, has already been
17 explained to the Commission. The directors of a trust
18 company, for example, might determine the general
19 investment trend and the general investment policy
20 of the company, but the actual decision as between
21 investing in company A and investing in company B
22 rests with the officer. The directors do not attempt
23 in my experience to interfere in that type of decision.

24 MR. FARIBAULT: Perhaps I could give you
25 another example. It does happen that an estate owns
26 the majority of the common stock of the company, and
27 the trust company also in their accounts owns minority
28 shares. You are faced with a decision as to whether
29 to sell the majority shares to somebody who is not
30 offered the purchase of all of the shares and you have



MR. NEWSON: Exactly.

MR. TIMMONS: We are doing what two separate

trust companies might do. The fact that there is one person, if you like, acting as trustee in both cases is irrelevant to us. We consider each element on its

own merits.

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1 got to make a decision as a trustee of the majority
2 stock as to whether you are going to accept an offer
3 without it being offered to the other estates that you
4 have, as though it were offered to all of the share-
5 holders. This is something you have got to do. This
6 might be the reason why you are not so keen on playing
7 a big role as a director of the company, because in
8 this case if you are a director you will be caught
9 within a conflict of interest. That is, as a director
10 in your relationship to all of the shareholders you
11 tend to think the offer should have been made to every-
12 body. If you are not a corporate director then you
13 can decide that you will sell the majority stock
14 for the benefit of that particular estate.

15 THE CHAIRMAN: That I suppose is not really
16 a conflict of interest in that sense because it is
17 a question of voting certain shares owned by a certain
18 estate in a way that is to the advantage of that estate,
19 and that can be done. There is no conflict of interest
20 about that. The trust company could have that done,
21 and the trust company could also have the opposite
22 done with respect to the other shares, and so on.

23 MR. FARIBAULT: The question I have in mind
24 is not a question of voting, it is a question of selling
25 or buying. If the trust company has one of the members
26 as director of the company, then he would feel inhibited
27 because he would say, should we insist that the offer
28 be extended to all shareholders, or should we decide
29 to transmit it merely to the majority shareholders
30 of the stock.



got to make a decision as a trustee of the majority stock as to whether you are going to accept an offer without it being offered to the other estates that you have, as though it were offered to all of the shareholders. This is something you have got to do. This might be the reason why you are not so keen on playing a big role as a director of the company, because in this case if you are a director you will be caught within a conflict of interest. That is, as a director in your relationship to all of the shareholders you tend to think the offer should have been made to everybody. If you are not a corporate director then you can decide that you will sell the majority stock for the benefit of that particular estate.

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is not a question of voting, it is a question of selling or buying. If the trust company has one of the members as director of the company, then he would feel inhibited because he would say, should we insist that the offer be extended to all shareholders, or should we decide to transmit it merely to the majority shareholders of the stock.



1 THE CHAIRMAN: Yes, that is what I meant.

2 COMMISSIONER BROWN: How do you resolve a
3 conflict as between different departments? For example,
4 you are operating a pension fund for a company and it
5 so happens that you are also trustees for the first
6 mortgage bondholders in the same company, and these
7 are different departments in the trust company. The
8 company gets into difficulties so you are going to
9 have to be nasty to them as a trustee for the bond-
10 holders, but you still want to be nice to them because
11 of the pension fund connection. How do you resolve
12 this sort of conflict? It has not arisen as yet, and
13 let us hope that it does not arise. We are dealing
14 with this on a theoretical basis. How do you suggest
15 that you would solve this difficulty?

16 MR. BENSON: There is no conflict there. As
17 a matter of fact I think the conflict term should
18 be used only where it is a question of conflict of
19 the trust companies personal interest.

20 The business of administering in respect to
21 different interests is almost routine in trust company
22 offices. I refer to the interests of one company and
23 another company. The sort of situation that Mr. Brown
24 refers to would actually create no serious problem
25 that I can see. It is true that we are the agent for
26 a company which has an established pension fund, but
27 we are merely the agent, and in the other case we are
28 representing the beneficiaries. Our duties as trustee
29 are perfectly clear. We could not for a moment consider
30 what result that might bring in respect to our relations

THE CHAIRMAN: Yes, that is what I meant.

COMMISSIONER BROWN: How do you resolve a

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1 with the company. In fact, cases have occurred I
2 think where trust companies have lost the goodwill
3 and profitable business of a company because they have
4 had to act to represent trusts and beneficiaries
5 adverse to the interests of another principal.

6 THE CHAIRMAN: Well, on the other hand, if
7 you have a director on the board of a company where
8 a conflict of interest arises, and if he has to
9 determine which way he is going to vote and by doing
10 so highly affect adversely one of the interests in
11 the trust, whatever it might be, that does become
12 a conflict of interest and I would think that either
13 he should not vote or he should not be a director at all.

14 MR. BENSON: I cannot recall such a situation
15 arising, but it is a personal conflict for the director,
16 and he is very conscious, in the trust business, of this
17 problem of conflict, and I would think he should
18 certainly take no part in a decision of that sort.

19 THE CHAIRMAN: Either way?

20 MR. BENSON: Either way.

21 MR. PEMBROKE: The director by virtue
22 of being the director represents all shareholders.
23 He would therefore vote as he saw fit on that
24 basis. When he gets into the trust company he will
25 not be the man who will make the decisions in respect
26 to the trust companies vote.

27 THE CHAIRMAN: Yes, but can he divest himself
28 so completely of his position in the trust company?
29 You are quite right, a director is a director of the
30 company, but when his vote as a director of the company

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THE CHAIRMAN: Yes, but can he divest himself

of his responsibility as a director in the trust company

and say that what a director is a director is and

therefore, that when his vote as a director of the company



1 is going to affect adversely one of the beneficiary's
2 interest to whom he is responsible also as an officer
3 of the trust company, is he not in a very difficult
4 position?. It seems to me that he should refrain
5 from voting entirely, or perhaps it is safer for him
6 not to be a director at all. I do not know whether
7 that situation would arise.

8 MR.PEMBROKE: He might refrain from voting

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1 one way or the other, either as a director or when
2 he has his trust company hat on, as a trust company
3 officer, but no one individual in a trust company
4 reaches decisions in respect to these things. He
5 might be completely swamped by his colleagues. In
6 fact, he would probably refrain from attempting any
7 influence.

8 MR. BENSON: I can give you a specific
9 example; a corporate trusteeship, a very large company
10 for whom we acted had two directors on our board and
11 an important decision had to be made entirely at
12 our discretion as to certain changes in the provisions
13 of the trust deed, and a special committee of the
14 board was formed, but neither of these directors,
15 of course, was put on that special committee. One
16 of these directors was asked for information, but
17 apart from that the decision of the special committee
18 was made; it was referred to the board for confirmation
19 and the two directors of the company did not vote
20 on the vote to confirm the position of the special
21 committee.

22 THE CHAIRMAN: We will adjourn now until
23 two o'clock this afternoon.

24 ---
25 --- Luncheon Adjournment.
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 board was formed, but neither of these directors,
 of course, was put on that special committee. One
 of these directors was asked for information, but
 apart from that the decision of the special committee
 was made; it was referred to the board for confirmation
 and the two directors of the company did not vote
 on the vote to confirm the position of the special

THE CHAIRMAN: We will adjourn now until
 two o'clock this afternoon.

Adjourned (Continued)



1 --- On resuming at 2 o'clock.

2 THE CHAIRMAN: We shall now resume.

3 COMMISSIONER LEMAN: I would like to have
4 just a little bit more about the conflict of interests
5 area that we were discussing this morning.

6 Let us suppose that you have been able
7 to resolve this fairly well, this question of one
8 account which you admit has one interest and another
9 account which has a different interest, but there
10 can be cases where the corporation as such could
11 have some interest that would conflict with some
12 trustee accounts, are there not?

13 MR. BENSON: Yes, it is possible.

14 COMMISSIONER LEMAN: Imagine, for instance,
15 some Canadian funds which would be invested in
16 securities in which a lot of your trustee accounts
17 are also invested. How can you resolve that to your
18 entire satisfaction as trustees?

19 MR. BEAN: I should think that the
20 probability/that the conflict would be minimal; surely
21 we would not have a different interest in a particular
22 situation -- would not our interest be alike?

23 COMMISSIONER LEMAN: I am asking you the
24 specific question. Suppose you have become slightly
25 disillusioned about a certain security and your
26 investment committee after careful consideration
27 decided that it would be best to start getting out
28 of it. How do you manage that; who sells first,
29 who gets out first or do you get them out on a pro-
30 portionate basis; what happens?

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1 MR. BEAN: I can tell you what happens
2 in our own company; the assets go out first. I
3 think in all cases such as this that we would try --
4 normally it would be a similar interest, anyway,
5 and we would try to be as fair as possible, you are
6 not trying to be unfair or to give priority, but it
7 is a problem which may well arise, but I do not think
8 it is one which will arise very frequently and on
9 which there will be very much prejudice on either
10 side.

11 COMMISSIONER LEMAN: Well, even between
12 trustee accounts can you pick and choose or do
13 you decide that you have a pretty heavy investment
14 in a certain situation that you begin to feel is
15 not ideal, can you get one account out first or the
16 other account, or do you have to bring them down pro-
17 portionately, or what can you do?

18 MR. BEAN: I think it would depend on
19 the size of the market for one thing; whether the
20 market is sufficient to accept them, whether it was
21 sufficient to take them in order or whether it was
22 not sufficient, and then you would have to work on
23 some sort of an arbitrary proportionate sales basis.

24 COMMISSIONER LEMAN: You cannot be too
25 specific about it, but how was this thing handled?

26 MR. BEAN: I think, Mr. Leman, it is
27 like a great many other things which has to depend
28 upon the particular circumstances at the time.
29 There is no hard and fast rule or even a rule of
30 thumb which we could apply in our own company. Per-

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1 haps some other company may have some definite policy.

2 MR. HODGSON: No, I think the words that
3 you used about trying to be fair are true. It happens
4 on the other side as well; there may be a situation
5 where you might want to buy securities and yet you
6 cannot get enough to go around to satisfy all the
7 accounts in the amounts that you might require, so
8 you would reduce them, generally speaking, proportionately.

9 I think that Mr. Bean's point is well
10 taken that these things do not come up very frequently,
11 but if, as and when they do you attempt to be fair
12 on it. I think his remarks on leaning over backwards
13 mean to make sure that the accounts, when we are acting
14 as trustee, would get the preferred treatment to
15 our own.

16 THE CHAIRMAN: Gentlemen, we may now
17 leave this main subject matter which we have been dis-
18 cussing for the time being. There may be some further
19 questions to be asked. I think that there are some
20 of the members that have to leave this evening and
21 we are particularly interested in the subjectmatter
22 of banks and near banks and the guaranteed fund.

23 COMMISSIONER LEMAN: In that general
24 area of discussion ---

25 THE CHAIRMAN: I thought you were finished.

26 COMMISSIONER LEMAN: I was on the conflict
27 of interest and I was going to ask a few questions,
28 with your permission, about the position of the trust
29 companies in the financial system; their relations with
30 other financial institutions.



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1 THE CHAIRMAN: That is all right, go ahead.

2 COMMISSIONER LEMAN: And there is an item
3 that in discussing the brief -- and I am not absolutely
4 clear on exactly what the concept of the Association
5 was on this -- and that is this matter of the creation
6 of credit. In one place I might quote your words;
7 you say:

8 "That this whole question with regard
9 to the chartered banks hinges around
10 the 8 per cent cash reserve minimum
11 that is imposed on them by law."

12 What do you mean by the word "hinges" on them. Do
13 you feel it is due to this primary cash reserve
14 restriction that the banks are enabled to create
15 credit?

16 MR. BEAN: I have the ^{paragraph} Act here. I was
17 looking at the whole context of the area in which
18 that statement is made and I think that in that
19 portion of the brief we are discussing the control
20 of the supply of money by the Bank of Canada by its
21 power to determine the cash reserve, and it was in that
22 context that it was stated that the chartered banks
23 cannot circumvent this system as they are required to
24 hold cash reserves with the central bank for at least
25 8 per cent of their total deposits, and it is on
26 this deposit with the bank that hinges the chartered
27 bank's ability to create credit. In other words,
28 they are in fact able to make loans which will
29 create deposits to the point of using up or utilizing
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1 8 per cent of their equivalent deposits, and this
2 whole question of what amounts to the $12\frac{1}{2}$ multiplier
3 which apparently is sometimes confused with the trust
4 company's ability to accept deposits in comparison with
5 their capital reserves.

6 COMMISSIONER LEMAN: Do I gather rightly
7 that you make the point in the brief that the chartered
8 banks can "create credit" and the trust companies cannot;
9 is that your basic position?

10 MR. BEAN: Our basic position is that in
11 dealing with the word "credit" particularly that we can ac-
12 cept funds on deposit and invest those funds. This
13 question of -- and I think we use it in the brief --
14 the definition of "create credit" is not fully under-
15 stood between any of us and therefore we are stating
16 our situation in the simplest terms possible, and I
17 would have thought that if in your minds that creates
18 credit, then that will be the position.

19 COMMISSIONER LEMAN: This is a rather
20 important point and I think it is worth discussing
21 a little bit. I would like to know if it is basically
22 your position that the chartered banks create credit
23 in a sense in which we understand the trust companies
24 do not?

25 MR. BEAN: I think our point is that we
26 do not create credit in the same way as the chartered
27 banks and that we simply receive deposits and invest
28 those deposits.

29 COMMISSIONER LEMAN: All right. Now,
30 let us take any individual chartered bank; does it not



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1 receive deposits and invest them?

2 MR. BEAN: Yes, I was speaking of the
3 chartered banks, Mr. Leman. Speaking of the banking
4 system as against the individual trust company. I
5 think that the whole thing is -- I think we all
6 understand that it lies with the fact that everything
7 gravitates back into the bank system as against an
8 individual bank. Individually there is a little
9 similarity, I agree.

10 COMMISSIONER LEMAN: So, it would not
11 be quite right to compare one individual trust
12 company with the whole bank system?

13 MR. BEAN: No.

14 COMMISSIONER LEMAN: Any more than it
15 would be right to compare one bank with the whole near
16 bank system, so is there anyone among your group who
17 is prepared to take the opposite side of this argument
18 and say that the trust companies to some extent do
19 create credit? No one will support that position.

20 MR. BEAN: I think again it depends upon
21 the definition in that context, Mr. Leman. I think
22 there are some who would in a very limited way agree
23 with what you have said, that perhaps to some extent
24 what we do has the effect of depending upon definitions
25 again and of increasing, shall I say, the supply of
26 accessible funds; that is an awkward way to put it,
27 I agree.

28 COMMISSIONER GIBSON: I think it is reasonable
29 to point out that there has been another study of
30

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1 this trust fund credit made.

2 MR. BEAN: Yes, I agree with that. We
3 recognize in the preparation that that was done and
4 it is possible that we did the same thing to some
5 extent, but you get so involved or one becomes so
6 involved in definitions that we have thought it would
7 be better, frankly, to try to state our proposition
8 and our operation in the simplest possible form and
9 let those who are the real experts on this decide
10 whether it is correct. It depends on definitions
11 all the way through.

12 COMMISSIONER BROWN: We have to decide
13 whether we agree with your brief or the study.

14 MR. BEAN: I think you will.

15 COMMISSIONER GIBSON: That is the conflict.

16 MR. BEAN: The study is not necessarily
17 our view and there are certainly some of us who lean
18 towards the thinking to a very limited extent.

19 COMMISSIONER GIBSON: It seems to me
20 that what Mr. Leman says is quite appropriate under
21 the circumstances; at least we should use the same
22 definitions and then we can agree what we are talking
23 about. In that regard you emphasize the 8 per cent
24 ratio of the banks, and that is an 8 per cent cash
25 ratio, and when you are talking about the $12\frac{1}{2}$ multi-
26 plier, do you think the situation with regard to banks
27 creating credit would be any different if there were
28 no cash ratio, the multiplier might be the greater?

29 MR. FORTIN: Yes, that is right.
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MR. FORTIN: Yes, that is right.



1 COMMISSIONER BROWN: If you were permitted
2 to put 8 per cent into the Bank of Canada would you
3 then be able to create credit?

4 MR. FORTIN: Looking at the picture as we
5 do, we are somewhat simple souls in the theory of
6 banking, whatever "banking" means.

7 THE CHAIRMAN: Perhaps you do not know
8 whether you are carrying it on or not?

9 MR. FORTIN: I do not know what it means.
10 However, to examine what we do; Joe Dokes has money in
11 his pocket; it is part of the money deposits as it
12 is now defined. He has money on deposit with a
13 chartered bank and that is part of the money deposits
14 as presently defined. We prevail upon Joe Dokes to
15 put his deposit with a trust company. If it is money
16 that he has on deposit with the bank, he takes it out
17 and he gives it to the trust company. We have created
18 nothing as yet. The really creative position was
19 the fact that Joe Dokes saved that money and he
20 had it.

21 Now, in our hands we immediately turn around
22 and redeposit that into a bank because that is all we
23 can do with it. The banks must at all times receive
24 all the money that there is, and all that has happened
25 in the example I have quoted is that the liability
26 of the bank has become one to the trust company instead
27 of one to Joe Dokes.

28 COMMISSIONER GIBSON: But something else
29 has happened; you have a deposit on the part of Joe
30 Dokes with the trust company and it was a liquid asset



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1 as far as that is concerned.

2 MR. FORTIN: It was a liquid asset also.

3 COMMISSIONER GIBSON: The other liquid
4 asset is there, too.

5 MR. FORTIN: In the hands of the banks;
6 we not being able to loan or invest anything but that
7 which has already been created and redirect the flow
8 of that deposit towards loans where there already has
9 to be some security lodged for it. We cannot invest,
10 for example, ⁱⁿ for a loan against the creation of inventory.
11 The person whom you make the loan to must have already
12 in his possession some assets, and if you call the
13 loan he has to take the asset he has already created
14 and give it to us. If we make him a mortgage loan
15 it is in respect of a property he has built or is
16 about to build. In other words, we direct that money
17 into a field entirely different than the banks because
18 of the limitation on the type of investments we can make.
19 Admittedly we do direct the flow of that money to
20 revenues of investment. We, in effect, borrow the
21 savings and we direct them. If we take the deposit,
22 the depositor with us also retains the right to direct
23 that flow. If we do it by way of a term deposit,
24 within the limit of that term the depositor cannot
25 get that money out; he is out of it for that term.

26 Now, I do not know that any of us would
27 deny that we do direct to what use the money we
28 get is put to. I do not think we are in a position
29 to create money or create credit in what I would call
30 the unsophisticated sense, because we think that the



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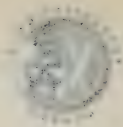
1 credit has already been given to the man who deposited
2 the money. We think that the limit at the present
3 time is $12\frac{1}{2}$ times the paid up capital and reserve.
4 It is not limited to the amount of our deposit
5 liability, such as the banks. No matter what we
6 do, the result of our financial transactions must
7 accrue into the banking system and the banks make
8 no depletion of any of that money because we as
9 trust companies put it there.

10 If you mean by the creation of credit
11 the ability to direct the flow of savings into
12 certain avenues of investments, we can do that; that
13 is the very nature of our gathering the funds from
14 the public and then we spread it out to certain
15 specific types of investment.

16 COMMISSIONER GIBSON: Is not that basically
17 what banks do, though; direct the flow of funds that
18 come to their hands?

19 MR. FORTIN: I think that the banks are
20 in a very favourable position; they must get all of
21 their money out of it. We cannot. We can only
22 get that money which we are able to obtain by paying
23 for an extra rate of interest, if you like, and it
24 does not automatically flow to us, whereas when the
25 Bank of Canada deals with the money setup, if it wants
26 to increase the money supply there is no way to prevent
27 the banks from getting the advantage of it, whereas
28 it is never sure that the trust companies can ever
29 get any benefit from it.

30 COMMISSIONER GIBSON: You mean that some



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1 banking will feel the increase in deposits that actually
2 occurs?

3 MR. FORTIN: The banking system as a whole
4 will get it.

5 COMMISSIONER GIBSON: But the whole
6 financial system gets a crack at it; is not that the
7 idea of this, to get your hands on the deposit?

8 MR. FORTIN: It actually gets a crack at
9 it to the extent that the seller will deposit that
10 money with the trust company, and to the extent that
11 you can prevail upon it, it does not make any difference
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1 The banks can sit very nicely back quite sure that the
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3 to them. We are not in that position because we can
4 only take as much of it as was passed by, and we
5 in turn are bound to put it in the bank. We can't do
6 anything else with it, and from that point of view we
7 think there is a very considerable difference. In effect
8 we view ourselves in the same way as any other borrower.
9 When an industrial corporation sells assets and the
10 public buys them, the corporation directs the flow
11 of that money. We think we do just the same thing.

12 COMMISSIONER GIBSON: Of course, there are a
13 lot of banks think this is what they are doing.

14 MR. FORTIN: Well, it is an area which I
15 gather from some reading where there seems to be
16 quite a bit of difference of opinion as among the
17 economists and writers as to what is this creation of
18 credit and what is this money supply, and how you should
19 control it, and so on, and you will recall I predicated
20 my remarks by saying we are simple souls in this theory,
21 and we in effect borrow the money that exists and
22 direct this flow.

23 THE CHAIRMAN: You are not unique in being
24 the simple souls.

25 MR. FORTIN: We are bewildered by all this
26 theory.

27 MR. GREGORY: We only have the number of dollars
28 that we get from depositors with us. We cannot increase
29 that by having it all with us -- I think that is the
30 essence of the difference.



The banks can sit very nicely back quite sure that the money supply is the basis of all business with the

to them. We are not in that position because we can

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my remarks by saying we are simple souls in this theory,

and we in effect borrow the money that exists and

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MR. CHAIRMAN: You are now going in order

the simple souls

MR. BOWEN: We are reminded by all that

MR. CHAIRMAN: We only have the number of dollars

that we get from depositors with us. We cannot increase

it by saying it all when it is - I think there is one

essence of the difference.



1 COMMISSIONER GIBSON: You could increase it
2 by attracting away deposits.

3 MR. GREGORY: Yes, we can go after more
4 deposits, but if we get \$X on deposits, it is only
5 \$X we can invest in mortgages or bonds. It is not
6 $12\frac{1}{2}$ times X, or even 6 times X.

7 COMMISSIONER GIBSON: Some of you gentlemen
8 are comparing an individual trust company with the
9 individual banking system, which is not altogether an
10 appropriate thing.

11 MR. GREGORY: Take all the trust companies
12 together -- it applies.

13 COMMISSIONER GIBSON: If you take them
14 all together the trust companies have some flow-back
15 in the transactions too -- certainly not as much as
16 the banks, but they get some of the funds back as a
17 whole system, and after they are paid out they get
18 their shares.

19 MR. GREGORY: But we have to put every dollar
20 we get first of all into a bank. There is the
21 difference -- another difference. We do it through
22 the banks; we operate through the banks the same as
23 anyone else.

24 COMMISSIONER BROWN: Let us say one trust
25 company gets a deposit from somebody and they lend
26 the money out on mortgage: That money is received
27 by somebody and re-deposited in another trust company,
28 and it in turn lends it out again.

29 MR. GREGORY: And that trust company puts
30 it into a bank.



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it into a bank.



COMMISSIONER BROWN: And it comes back into

another trust company: Isn't there a multiplication factor there?

MR. FORTIN: Well, the first thing the trust company does is put that money the same day or the next day into a bank, and then it draws cheques against this bank account.

COMMISSIONER BROWN: And it goes back into another trust company.

MR. FORTIN: It may or may not.

COMMISSIONER BROWN: What I was saying is, I was bringing out Mr. Gibson's point to the extent it does come back into the trust company system; there is a multiplication factor taking place.

MR. FORTIN: I suggest to you the extent that money or deposits get into the hands of all the trust companies, it ultimately all gets into the hands of the banks.

COMMISSIONER BROWN: But meanwhile the use of that money has been multiplied several times, hasn't it?

MR. FORTIN: No.

MR. BEAN: I think Mr. Brown's assumption is correct, but I think the assumption may be questioned ---

COMMISSIONER BROWN: Let us agree it is invalid to assume it is always coming back to a trust company.

MR. BEAN: I would agree with you that there is some element in it to a very small extent, almost an infinitesimal extent, to which it may be re-deposited in trust companies. There may be some element of it there. There may be some element of it there.



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is some element in it to a very small extent, almost

an infinitesimal extent, which is why it is so described

as being hypothetical. There may be some element of it there



1 COMMISSIONER GIBSON: Isn't it dependent on
2 the size of the trust company system compared to the
3 banking system?

4 MR. BEAN: Yes, and the internal one -- it
5 is internal more than basic size.

6 COMMISSIONER BROWN: And because of your
7 savings accounts you are concentrating on you are not
8 going to get as much of the normal flow as if it was
9 current?

10 MR. BEAN: That is right, and it is an entirely
11 different operation, really. It has a great many
12 similarities, as we agreed at the start, but what we
13 do with the money certainly has a bearing on it,
14 and nine times out of ten it is dispersed out of our
15 system -- more often than nine times out of ten; in
16 almost every case it moves out of our system immediately.
17 There is some element, but it is a minute one when
18 compared with that which lies in the banking system.

19 MR. FARIBAULT: I think the size of the
20 limitation is not stressed enough. If you go to
21 the first page, paragraph 1, you must realize we are
22 not entitled to take any more than $12\frac{1}{2}$ times our
23 capital and reserves, and of course, our company funds
24 are \$185 million at the present time. We hold \$1,419
25 million, but our maximum would be \$2,320. So, within
26 \$9 million that is all that comes down to the system.
27 Everything else must go through the banks. This
28 limitation is absolute; you can't say if you can get
29 more and more and multiply -- there is just a ceiling
30 which we cannot go beyond.



COMMISSIONER GIBSON: Isn't it dependent on

the size of the trust company system compared to the

banking system?

MR. BEAN: Yes, and the internal one -- it

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There is some element, but it is a minute one when

compared with that which lies in the banking system.

MR. FARRINGTON: I think the size of the

limitation is not stressed enough. If you go to

the first page, paragraph 1, you must realize we are

not entitled to take any more than 12½ times our

capital and reserves, and of course, our company funds

are \$180 million at the present time. We hold \$1,410

million, but our maximum would be \$2,520. So, within

\$9 million that is all that comes down to the system.

Everything else must go through the banks. This

limitation is absolute; you can't say if you can get

more and more and multiply -- there is just a ceiling

which we cannot go beyond.



1 COMMISSIONER GIBSON: Unless you increase
2 your capital?

3 MR. FARIBAULT: Yes.

4 COMMISSIONER GIBSON: This applies to other
5 financial institutions. There are other habits and
6 regulations about capital.

7 MR. FARIBAULT: Yes, but what about the
8 banking system?

9 COMMISSIONER GIBSON: They have some habits.

10 MR. FARIBAULT: Well, we have some habits
11 too, the main habit being, actually, we are investing
12 immediately dollar for dollar and we don't make personal
13 loans.

14 COMMISSIONER GIBSON: I thought you were
15 talking about capital ratios.

16 MR. FARIBAULT: No, this is an absolute
17 limitation.

18 COMMISSIONER GIBSON: And I was pointing out
19 that other financial institutions have to look at their
20 capital positions too.

21 MR. FARIBAULT: Yes, and that is very good,
22 but what I want to stress is that there is an actual
23 ceiling which you cannot go beyond, and this is the
24 limit.

25 COMMISSIONER BROWN: In the over-all picture
26 at the moment the ceiling is not effective, so it is
27 not relevant to this immediate discussion. It is
28 a separate point, and I think this is one of the points
29 in your brief, that you want to avoid the confusion
30



1 between the $12\frac{1}{2}$ times of your capital and reserve and
2 8 per cent banking reserve, and if we keep them separate
3 I think we will avoid the confusion, because it does
4 not enter into it at the moment.

5 MR. FARIBAULT: To the extent you cannot go
6 beyond that, anyway.

7 COMMISSIONER LEMAN: This will change the
8 subject a little bit. In paragraph 333, starting first
9 with paragraph 301, through this chapter you make
10 quite a point of the trust companies being interested
11 in gathering true savings. You seem to make a difference
12 between something that would be true savings as against
13 -- well, not true savings, I suppose. Then, a little
14 later you attach also some important to having good
15 clearing facilities for chequing deposits. What do
16 you have in mind when you talk about true savings?
17 Do you mean longer term savings?

18 MR. BEAN: I think we mean longer term savings
19 with, what has become customary to Canadians, a gimmick;
20 that is the privilege of chequing. It seems to me
21 that the Canadian saver has been spoiled over scores
22 of years, really, as against savers in other countries,
23 and been provided with something which is now almost
24 what you think of as a right even in respect of true
25 savings. In other words, people who want to keep
26 their savings pooled in one piece and be able from time
27 to time to reduce that piece through writing cheques
28 against it, and this is something which is almost
29 peculiar to the Canadian economy, and they have always
30 had that privilege of being able to cheque against



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8 per cent banking reserve, and if we keep them separate
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MR. PARIBALL: To the extent you cannot go

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subject a little bit. In paragraph 33, starting first
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peculiar to the Canadian economy, and they have always



1 their savings accounts. That is something which
2 we think has encouraged savings and is an essential
3 part of it at the moment.

4 COMMISSIONER LEMAN: Would you admit to a
5 certain amount of defeat in this because in paragraph
6 334 you say you want true savings and you describe
7 the current account use of deposits, and yet in
8 336 it seems to me you say that chequeable deposits
9 are much the more popular type of deposit amounting
10 to 70 per cent in value of total deposits. Your
11 efforts to attract what you call true savings have been
12 frustrated a bit, or what?

13 MR. BEAN: To answer your question, I think
14 that the true saver in Canada, the person who wants
15 to save his money, prefers to keep it in one packet
16 if possible and be able to combine in his true savings
17 account the capacity to write occasional cheques --
18 not to operate it as a current account, but to write
19 occasional cheques against it and have that right of
20 access to his money from time to time in that way,
21 and it is a combination of the two. It is something
22 which has been added in this country and which I think
23 would be very hard to take away, and it is an essential
24 part of the thinking of most people who keep savings
25 accounts.

26 COMMISSIONER LEMAN: In other words, in these
27 deposit accounts, in effect, are mixed longer term
28 savings and their very short-term temporary savings?

29 MR. BEAN: That is right. They are kept in
30 one piece -- one packet.



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1 COMMISSIONER LEMAN: ^{and} This is some insistence
2 also made on the fact that even in the demand deposit
3 field you consider these to be trust -- there is a
4 trust feature connected with them. I am not too clear
5 in what sense the trust feature has any importance
6 here. It is argued also in Mr. Faribault's brief.
7 Isn't the trust feature of it pretty well killed
8 in that field?

9 MR. BEAN: Well, to answer that maybe I
10 will say that the trust feature exists in the account
11 for the funds or investments -- the securities and
12 mortgages and other assets held on that account are
13 actually held in trust for the depositors and are
14 not the property of the company itself. Conceivably,
15 if anything would happen to the company itself these
16 assets would be immediately available to the depositors.
17 So, there is, in effect, a trust. The strength of
18 that is weakened somewhat by the fact they are also
19 relying upon a guarantee and they would, in effect,
20 also have access to the company's own capital and
21 reserves to the extent they were not required by
22 other creditors should that take place, but there is
23 a trust and it does give some added protection.

24 THE CHAIRMAN: I must say I am having some
25 difficulty appreciating that position. You receive
26 a deposit of money and in return for that you, in
27 effect, promise to pay that amount or any part of it
28 upon -- perhaps not on demand, but after certain
29 notice -- a couple of months, or whatever it may be.
30 Then you take that money and you invest it in longer



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notice -- a couple of months, or what ever it may be.

Now you take that money and you invest it in longer



1 term securities as a rule, don't you, and everything
2 becomes mixed up in one pot, as it were. Where is
3 the trust in that particular custom?

4 MR. BEAN: To use your words, Mr. Chairman,
5 the pot is the trust. All the collective deposits
6 received in trust are in, as it were, one pot which
7 has longer term securities in it.

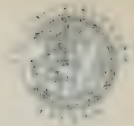
8 THE CHAIRMAN: Yes. Well, one of the customers
9 can come to you and say he wants to withdraw his share
10 of the pot upon certain notice, and he is entitled
11 to that?

12 MR. BEAN: Right.

13 THE CHAIRMAN: And it may be that you have
14 to sell some of your longer term securities to provide
15 for that or you may have other reserves available,
16 as the case may be. Then the other depositors are
17 left in the position of having what remains; nobody
18 has any particular hold over any particular share
19 of that. It is all an indivisible aggregate of
20 money that comes in from all sources and can be with-
21 drawn from time to time at a moment's notice. No
22 single depositor has any claim to any particular
23 assets or anything of that kind?

24 MR. BEAN: But as a group they have a claim
25 against all the assets which are actually held and
26 held separately for that group in our own accounting
27 and in our own custody of the securities and custody
28 of the bonds.

29 MR. BENSON: The same is true of a pension
30 trust fund, a common trust fund, an investment fund:



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THE CHAIRMAN: And it may be that you have to sell some of your longer term securities to provide for that or you may have other reserves available, as the case may be. Then the other depositors are left in the position of having what remains; nobody has any particular hold over any particular share of that. It is all an indivisible aggregate of money that comes in from all sources and can be withdrawn from time to time at a moment's notice. No single depositor has any claim to any particular assets or anything of that kind?

MR. BEAN: But as a group they have a claim against all the assets which are actually held and held separately for that group in our own accounting and in our own custody of the securities and custody of the bonds.

MR. BRINSON: The same is true of a pension trust fund, a common trust fund, an investment fund:



1 In each case it is a collective trust where the number
2 of interests are pooled and the assets held in trust
3 for the benefit of all.

4 MR. GREGORY: I wonder if all the Commissioners
5 realize at the end of each year a trust company has
6 to take all their funds received from the public and
7 balance them against the assets protecting those
8 funds? In that sense it is very truly held in trust.
9 They must balance, and until a while ago you actually
10 had to segregate those physically; you don't have
11 to do that now. What is left over are company funds.
12 Every trust company has, then, two very different
13 segments in their money which they handle: Their own
14 company funds, comprised of their capital reserves,
15 and the guaranty funds which come from the public
16 and must be segregated and have assets dollar for
17 dollar held against them to provide for the re-payment.

18 THE CHAIRMAN: All right. Assuming that is
19 a trust, or whatever you want to call it, what is the
20 practical difference, in your view, between a bank
21 deposit and a deposit with a trust company?

22 MR. BEAN: The only basic difference, I think,
23 Mr. Chairman, is the point I mentioned earlier, and
24 that is in case of financial difficulty they would
25 be immediately available to that group of people. It
26 is like having a secured bond.

27 THE CHAIRMAN: Well, is it? Suppose all
28 depositors come along at once and claim their money,
29 and you have got it all let out in securities of
30 various maturities: What are you going to do?



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1 MR. BEAN: But they are still entitled to
2 the proceeds of those particular assets.

3 THE CHAIRMAN: Yes, but they may have to wait.

4 MR. BEAN: If they were merged together for
5 something else, all the assets may be divisible
6 among all the creditors.



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THE CHAIRMAN: That is correct, and now to call

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1 COMMISSIONER MacKEEN: There is only usually
2 a very small portion payable on demand in the guaranteed
3 investment fund?

4 MR. BEAN: Yes.

5 COMMISSIONER MacKEEN: The great proportion
6 are debentures or certificates. On them you have
7 sufficient liquid assets in the form of bonds to cover
8 the deposits pretty well or reasonable withdrawal, am
9 I right?

10 MR. BEAN: That is right, Mr. MacKeen,
11 and certainly savers have fairly fixed habits. You
12 can tell from experience what might possibly be required
13 in the way of cash, and you keep sufficient cash there
14 to meet normal requirements.

15 COMMISSIONER LEMAN: An open end mutual
16 economy is not a trust function, is it, or is it?

17 MR. BEAN: Well, some of them are trusteesd.

18 COMMISSIONER BROWN: There is a little
19 confusion here. Perhaps you can straighten up
20 my thinking on this. Is it not true that if it
21 is a pension fund for a company that that pension
22 fund is entitled to all the securities that you are
23 holding with respect to that particular trust whereas,
24 as far as your dollar deposits are concerned, the
25 trust is only effective up to the amount of dollars
26 in it and the thing is that the securities are segregated
27 because of those dollar claims to provide an additional
28 margin in case there is some loss. Is that not correct?
29 In other words, it is a trust only up to the point
30 of the dollar amount whereas the other is a trust in



COMMISSIONER MACKENZIE: There is only usually a very small portion payable on demand in the guaranteed investment funds?

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In other words, it is a trust only up to the point

of the dollar amount whereas the other is a trust in



1 respect of specific securities or specific amounts
2 of securities?

3 MR. BENSON: There is a trust of specific
4 securities but all the legislation listed on page 3
5 provides that in the case of guaranteed funds the
6 assets must be segregated, indicated that they are
7 held on this particular trust account, the securities
8 must be identifiable, the registrar can at any time
9 make an examination and inspection and he has to
10 find them and the accounts at the end of the year
11 must show the assets which are set aside and identified
12 to meet those securities.

13 COMMISSIONER BROWN: Would you agree
14 that if it were all wound up, say, at the end of the
15 year and there was a surplus it would not belong to
16 the members of the trust, it would belong to the
17 company.

18 MR. BENSON: The terms are such.

19 COMMISSIONER MacKEEN: You are further
20 required, Mr. Bean, to report that transaction to
21 your board of directors, are you not, under the
22 regulations in the guaranteed trust fund that you
23 buy yourself?

24 MR. BEAN: Yes, I think that is pretty
25 well correct. It is a similar situation to what
26 we had this morning in discussing the estates trust
27 and agencies account and all purchases have to be
28 approved by the board of directors.

29 MR. FORTIN: I was going to say, Mr. Brown,
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REPORT OF THE BOARD OF DIRECTORS OF THE FEDERAL RESERVE BANK OF NEW YORK
 OF 1934

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1 that the trust extends to the principal as well as
2 to the agreed upon rate of interest. Any excess
3 earnings over and above that is the property of the
4 company.

5 COMMISSIONER BROWN: That is right.

6 MR. FORTIN: But the trust extends to the
7 interest as well as to the principal.

8 COMMISSIONER BROWN: The point being in
9 this case the cestui que trust is only dollars
10 claimed and in the other case it is securities.

11 MR. BEAN: Yes.

12 COMMISSIONER BROWN: Now, let us deal
13 with these deposits against which you only have a
14 dollar claim although you have further securities
15 hypothecated, using "hypothecated" in a different
16 sense. Is there a real difference between these
17 bank deposits -- getting away from the legal principles --
18 in fact is there any real difference? I should not
19 say is there, what is the real difference?

20 MR. GODWIN: As I understand it, Mr. Brown,
21 you put a dollar in the bank and become a creditor of
22 the bank. So that is there for sharing on the winding
23 up of the bank, but in this particular trust case it
24 is not subject to any claim of any creditors but it
25 belongs to those people who deposit dollars and will
26 become in fact a cestui que trust.

27 COMMISSIONER BROWN: In the practical
28 operation of it.

29 MR. BEAN: From the standpoint of the man
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COMMISSIONER BROWN: In the practical operation of it.

MR. BROWN: From the standpoint of the man he puts the money where he thinks it is in a safe place



1 and how different is it to him to have his money in
2 a trust account company or a bank?

3 COMMISSIONER LEMAN: Yes.

4 MR. BEAN: I do not think very much.

5 THE CHAIRMAN: The use of the word "trust"
6 in the statutes and elsewhere in this connection is
7 rather loosely used but it seems to me what they are
8 getting at is when the deposits in the trust company
9 are impressed with sort of a general trust so that
10 those moneys, when they are used to purchase
11 long term securities of one kind or another at various
12 maturities, those securities all become impressed
13 with that trust and they do not belong to the trust
14 company itself. They belong to the depositors with
15 the exception that if there is a surplus it does not
16 belong to the depositors. I would say that is a
17 very loose conception.

18 MR. GREGORY: There is a difference between
19 a loan company and a trust company. Mortgage loan
20 companies of which you have some represented do not
21 have to do that, and a depositor, I think, is a creditor
22 of a loan company.

23 THE CHAIRMAN: Well, does it make any
24 practical difference?

25 MR. GREGORY: Yes, you cannot assign,
26 for instance, an investment certificate, but you
27 can assign a debenture.

28 COMMISSIONER BROWN: But as far as the
29 banks are concerned the point was brought up that they
30 might be creditors of the bank. What other creditors



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1 of the banks are there under the heading of depositors?

2 MR. HUNGERFORD: There could be all kinds
3 of others.

4 MR. FORTIN: Just as amongst the shareholders.

5 COMMISSIONER GIBSON: There are not any
6 other liabilities in the bank except to the shareholders.

7 COMMISSIONER BROWN: We are talking about
8 the operation. Except for this formality or techni-
9 cality of subjecting these securities to this trust
10 there is no practical difference in the operation
11 that you can suggest?

12 MR. GODWIN: Are we talking about the
13 deposits and withdrawals of money from the bank
14 as against withdrawal of money from the trust company,
15 is there any difference?

16 COMMISSIONER BROWN: The savings only.

17 MR. GODWIN: I do not think there is any
18 difference there.

19 MR. GREGORY: You cannot have an overdraft
20 in an account in a trust company.

21 COMMISSIONER BROWN: Banks do not like that.

22 MR. HUNGERFORD: The banks will allow
23 overdrafts in your current accounts but not on the
24 savings. We do not allow overdrafts in our savings
25 accounts either.

26 COMMISSIONER LEMAN: I do not think we
27 need to necessarily flog this any more.

28 COMMISSIONER BROWN: Except may I bring
29 up one other question here that might arise. It might
30 be an appropriate time to bring it up and that is in



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1 view of all these operations and the other operations
2 what reasons do you suggest about the banks going
3 into the trust company business?

4 MR. BEAN: After what they have heard this
5 morning perhaps they would not want to.

6 MR. HODGSON: If I may be permitted an
7 observation, is your question based on the assumption
8 that the trust companies are in the banking business?

9 COMMISSIONER BROWN: Well, let us not
10 discuss it now; we will discuss it later on in another
11 context.

12 MR. BEAN: One other thing before we leave
13 this question; I do not think there should be any
14 misapprehension that the trust companies have just
15 entered the savings deposit business in the last few
16 years. This has been something which we have done
17 steadily throughout ^{many} several years. There is nothing
18 new about our being in the savings business. Some
19 companies may be in it more aggressively than others.

20 COMMISSIONER BROWN: The secretary has
21 suggested to me in view of the fact that we have
22 before us captive witnesses who may not be with
23 us tomorrow it might be better to discuss further
24 this matter that the banks at some stage might be
25 permitted to go into the trust company business like
26 they do in certain other countries. What are your
27 thoughts on this possibility? It is a kite and I
28 would like you to treat it as such.

29 THE CHAIRMAN: We have not made up our
30 minds; we just want to know.



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1 MR. HUNGERFORD: They have been two separate
2 fields all these years since the first trust company
3 organized, certainly in Ontario, which was about back
4 in 1875 and I think the economy has gone along very
5 well with these two separate forms of institutions.
6 We are doing nothing, as Mr. Bean says, which is
7 different from what we have been doing for perhaps
8 90 years or so, or roughly 90 years, and it would
9 be a new departure if the banks of this country
10 embarked on the trust companies business. Whether
11 that would be good for the economy or not we do not
12 know.

13 MR. BEAN: I do not know whether we could
14 really object to it.

15 MR. GREGORY: I think you would find more
16 political objection to it. The howl that was raised
17 after the last amalgamation of two banks would indicate
18 that there would be a terrific outcry for the banks
19 to have the right to do trust company operations with
20 the central organization they have in the bank.

21 THE CHAIRMAN: Would you like to say
22 anything about the banks controlling the trust companies?

23 MR. GREGORY: I will not because I am
24 not in that position.

25 THE CHAIRMAN: Perhaps someone would care
26 to give their views.

27 MR. FARIBAULT: I have already expressed
28 myself in writing. I do not know whether you want
29 me to add anything but I have said that I think there
30 are very many reasons and in so far as banks getting



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1 into the trust company field is concerned I think the
2 first objection would be efficiency. I think that
3 the questions you have put to us this morning show
4 that actually the trust company business is much
5 more specialized than one might think at first glance,
6 and that it needs a great deal of time and experience
7 to form a trust officer and that, secondly, he cannot
8 go by general rules which would be applicable to the
9 whole economy of the country; he has got to rely
10 very carefully on the law in the different provinces
11 where he is acting.

12 This is a question of efficiency which
13 is also borne out by the general principles which
14 are invoked by most of the the writers on trusts.
15 These writers may not object in certain other countries
16 because in other countries they have a unitary
17 constitution. In Canada it so happens the con-
18 stitution divides the jurisdiction on the one hand
19 of the bank limiting it to the federal government
20 and property and civil rights to the provinces. It
21 seems to me that this division is the paramount reason
22 why the banks should not go into the trust business
23 because since they must be governed by federal act
24 they cannot at the same time be properly governed
25 by a provincial act on two very different kinds of
26 operations.

27 If that is true, that constitutional barrier
28 does exist and it has existed because it is founded
29 in reason. So you have, firstly, the efficiency and,
30 secondly, you have the constitutional barrier and, thirdly,



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1 you have also the fact that this would actually not
2 be favourable to the public interest whether you talk
3 of efficiency as regards the management of a trust
4 company in each one of its facets or whether you
5 talk of the management of a bank, or whether you talk
6 of the general public interest.

7 So far as the banks are concerned I think
8 it would be very easy if the banks were to control
9 trust companies for the banks to do indirectly what
10 they are not allowed to do directly. You have
11 more restrictions in the act regarding the holding
12 of real estate which the bank is entitled to hold.
13 The same limitations do not hold good for trust
14 companies under all the acts. Secondly, we have
15 a restriction on mortgages. You have questioned
16 us this morning about the proportion of mortgages
17 that were invested in by trust companies and again
18 this is something which the banks ^{would} do indirectly if
19 it were doing the business of a trust company.

20 In the same way -- and this, I think,
21 relates to one of the questions Mr. Brown put a
22 moment ago, what is the difference between the actual
23 use of the deposits which are held by the banks as
24 against trust companies -- in the case of the bank
25 unless I am wrong, I might well be mistaken, I think
26 they are using that money generally to make commercial
27 loans and in the case of the trust companies they
28 are not permitted to do that.

29 Secondly, the banks invest in some securities.
30 The kind of securities they do invest in are rather



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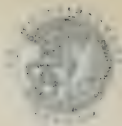
Toronto, Ontario

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Firstly, at the very beginning, when you

appoint a trustee for the bond holders, because as
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1 Secondly, because in the cases of most of the
2 industrial industries which do borrow on bond issues,
3 they may become in default where the trustee has to
4 take possession, and there is bound to be a conflict
5 between the trustee as such and the bank, because the
6 bank will continue to make advances to the company,
7 some of those advances may be guaranteed and others
8 may not be secure^d. In that case the trustee must
9 look to the interest of the bondholders in conflict
10 to the interest of the bank. The bank holds the
11 security and that is proper, but at the same time
12 in realizing that security it has got to continue
13 the process of manufacturing; it has got to collect
14 the bill, it has to have use of the real estate which
15 is occupied by the industry, and for all these things
16 it needs to deal with the trustee. The trustee
17 actually is dealing with many principals but I think
18 there^l would be a very great danger of the trustee
19 being not impartial, which would be not good for the
20 realization, and with that realization finally the
21 trustee must account not only to the bondholders but
22 to the shareholders of the company and to the ordinary
23 creditors as represented by your receiver or your
24 trustee in bankruptcy.

25 In this case again the relationship is
26 actually a trust relationship in the same way as in
27 the case of estates. You must also all the time have
28 in mind the interests of the income beneficiary;
29 the life tenant and the remainderman.

30 Then, also in the interest of those corporate



Secondly, because in the cases of most of the industrial industries which do borrow on bond issues, they may become in default where the trustee has to take possession, and there is bound to be a conflict of interest between the trustee and the bondholders. Some of these advances may be guaranteed and others may not be secured. In that case the trustee must look to the interest of the bondholders in conflict to the interest of the bank. The bank holds the security and that is proper, but at the same time in realizing that security it has got to continue the process of manufacturing; it has got to collect the bill, it has to have use of the real estate which is occupied by the industry, and for all these things it needs to deal with the trustee. The trustee actually is dealing with many principals but I think there would be a very great danger of the trustee being not impartial, which would be not good for the realization, and with that realization finally the trustee must account not only to the bondholders but to the shareholders of the company and to the ordinary creditors as represented by your receiver or your trustee in bankruptcy.

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2 of the bondholders, but at the end, finally, those
3 of the unsecured ~~treasuries~~ and of the companies
4 themselves. This makes for a really large risk. This
5 I think would be true in so far as the trust companies
6 are concerned.

7 As far as the bank is concerned, I do not
8 think it is quite proper for the bank to freeze part
9 of its assets in securing the majority of total
10 interest in stock of a trust company. It would have
11 the effect of freezing this part of its assets and,
12 therefore, diminishing the liquidity which I believe
13 is a principle which is recognized in the Bank Act,
14 and which is also confirmed by the actual practice
15 of the bankers.

16 This is a situation which you might apply
17 not only to trust companies but also to other
18 institutions, and is to my mind something which is
19 not favourable to the liquidity of the bank.

20 Finally you have the question of the public
21 interest in general on account of the maximum power
22 which would be given to the banks if they were to
23 hold all of the stock of some trust companies and
24 thereby being authorized to act not only on the secured
25 deposit; on the current deposits, but on the purchase
26 of securities and also on the assets of all agencies.
27 This is not the proper business of the bank.

28 What is the proper business of the bank might
29 very well be a moot question, but I think if we take
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1 doing and have been doing, and what the trust
2 companies are currently doing and have been doing,
3 one must realize that all in all it is a very different
4 kind of business.

5 Now, the reverse would not in my estimation
6 be as bad. That is, if the trust companies were
7 to hypothetically purchase control of the bank. This
8 is practically unfeasible. It is unfeasible because
9 the facilities and services of the trust companies
10 are not sufficient to do that in any case. This is
11 really by reason of the fact that all of these assets
12 of the trust companies are trust assets and are segregated.
13 We could not possibly use the deposits to purchase
14 shares in the bank. This is not proper investment
15 for us. It is not proper investment because the
16 Trustees Act does not permit us to do that. We would
17 be able to do it through estates only, but a prudent
18 administrator would be very foolish to try to purchase
19 the control of a bank. What we have been doing all
20 along is purchase stock in many banks because that
21 diversification is something which we feel the only
22 proper thing to do.

23 So, in the nature of things this is a danger
24 which is just a hypothetical one. If you come down
25 to brass tacks the actual situation is quite different
26 if a bank were to purchase a trust company, because
27 the assets of a bank are much, much larger and it
28 would be very easy for the bank to transfer over any
29 portion of its mortgage assets and purchase the control
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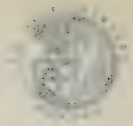
1 general opinion is contrary to that.

2 In the United States you have legislation
3 which regulates the holding of a bank stock which
4 means that actually you are not allowed to go beyond
5 a certain limit. These principles would apply in
6 my estimation exactly to the purchase of control by
7 a bank. I would go further than that; I would say it
8 would be just as improper for a bank to purchase the
9 control of an insurance company, because it would
10 also freeze its assets, or a finance company, for
11 different reasons but also for that reason, and this
12 I think is a paramount argument which goes to the
13 support of the stand which I am taking at the present
14 time.

15 COMMISSIONER LEMAN: Mr. Faribault, how
16 far would you go? What do you specifically have in
17 mind; that the banks should not own or could not
18 own by law any stock in a trust company, or just not
19 the majority of the shares of a trust company, or how
20 far should it go?

21 MR. FARIBAULT: Personally I would think
22 that it is not advisable for a bank to own any stock
23 in a trust company. However, I realize fully that
24 this may be a little stringent. I know that some
25 legislation merely states that banks cannot own more
26 than, for instance, 10 per cent of the stock of any
27 other company. This is a matter of principle regarding
28 the Bank Act as to what is the proper investment
29 of funds by a bank.

30 So far as the trust companies are concerned,



General opinion is contrary to that.

In the United States you have legislation which regulates the holding of a bank stock which means that actually you are not allowed to go beyond a certain limit. These principles would apply in my estimation exactly to the purchase of control by a bank. I would go further than that; I would say it would be just as improper for a bank to purchase the control of an insurance company, because it would also freeze its assets, or a finance company, for different reasons but also for that reason, and this I think is a paramount argument which goes to the support of the stand which I am taking at the present time.

MR. PARIBANIT: Now far would you go? What do you specifically have in mind; that the banks should not own or could not own by law any stock in a trust company, or just not the majority of the shares of a trust company, or how far should it go?

MR. PARIBANIT: Personally I would think that it is not advisable for a bank to own any stock in a trust company. However, I realize fully that this may be a little stringent. I know that some legislation merely states that banks cannot own more than, for instance, 10 per cent of the stock of any other company. This is a matter of principle regarding the Bank Act as to what is the proper investment of funds by a bank. So far as the trust companies are concerned,



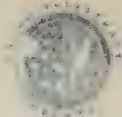
1 I only want to state that in my opinion this matter
2 of control would be an improper one. If control
3 has been acquired in the past banks ought to be
4 ordered to divest themselves of that control.

5 What is the proper figure or ratio which
6 can be used in the future; that is to say, the bank
7 should not hold more than such and such a proportion
8 of the stock of this and that company, or any company
9 whatever, for that matter, is something which is not
10 up to me to express an opinion on, I think.

11 COMMISSIONER LEMAN: How about interlocking
12 directorships; would you prohibit those too?

13 MR. FARIBAULT: No, I would not, because I
14 think in the same way as we have said this morning
15 that a trustee could very easily, being mainly
16 conscious of the possible conflict of interest, do
17 his duty from an ethical point of view, I think there
18 are definite advantages of interlocking directorships.
19 I would say, for instance, that I would have no
20 objection whatsoever to a director of a bank being
21 a director of the Bank of Canada. This is how far
22 I would go. This is not improper. There are some
23 individuals who are so public minded and ethical
24 that they could make distinctions and take a stand
25 on this point with profit for the public. This I
26 understand is happening, for instance, in France.
27 There are directors in banks which have been selected
28 as administrators of Banque du France without any
29 difficulty.

30 MR. FORTIN: Mr. Chairman, may I present a view



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There are directors in banks which have been selected

as administrators of Banque du France without any

difficulties.

MR. FORTIN: Mr. Chairman, may I present a view



1 on this question?

2 There has always been a close association
3 between certain companies; certain trust companies,
4 certain banks, certain loan companies and so on.
5 The mere fact of a bank buying stock in a trust company,
6 or a trust company controlling a loan company is not
7 in itself in my view at all sinister, because I think
8 that all kinds of shenanigans could take place without
9 the actual ownership of stock. I do believe that the
10 mere ownership of stock is not in itself anything
11 sinister.

12 As to the reason why a bank should not get
13 into a field so specialized as trust companies I
14 think depends on the fact that hitherto the two
15 functions have been separated. There are special fields,
16 and I think this has been good for the economy; I
17 think this has been good for the country. I personally
18 do not believe in everybody being a Jack of all trades.
19 I think the banker is a banker, the trust man is a
20 trust man and a bricklayer is a bricklayer. I do not
21 think you should try to merge anyone together in respect
22 to all the various things that can be done.

23 COMMISSIONER LEMAN: With all this we are left
24 a little bit in a quandry as to ^{what} exactly is the field
25 of banking. There are quite a few things that banks
26 do which trust companies do also. What is the thing
27 that a bank does that a trust company does not do?
28 You have mentioned the making of commercial loans,
29 but is that the essence of banking; the making of
30 commercial loans?



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trust man and a broker as a broker. I do not

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to all the various things that can be done.

COMMISSIONER LEWIS: With all this we are left

a little bit in a quandry as to exactly is the field

of banking. There are quite a few things that banks

do which trust companies do also. What is the thing

that a bank does that a trust company does not do?

You have mentioned the making of commercial loans,

but is that the essence of banking; the making of

commercial loans?



1 MR. FORTIN: I have never seen a definition
2 of it. I do not know whether the mere taking of deposits
3 is banking, or whether just that you get the privilege
4 of chequing makes it banking, or whether banking is
5 a broad term that encompasses the gambit of the banking
6 operations, or just what it is. I noticed that you
7 already had before you representatives discussing a
8 definition of banking. Unfortunately I have not been
9 able to come up with one.

10 THE CHAIRMAN: Well, we have had a myriad of
11 them.

12 COMMISSIONER MACKINTOSH: Would you agree,
13 Mr. Fortin, that if Parliament saw fit to take away
14 from the banks the privilege of holding chequable
15 deposits that they would not longer be banks?

16 MR. FORTIN: No, I could not say that. I
17 think they could still be banks.

18 COMMISSIONER BROWN: Perhaps we should ask the
19 other question; if Parliament saw fit to take away
20 the privilege of chequable accounts of trust companies,
21 would they no longer be trust companies?

22 THE CHAIRMAN: They are under provincial
23 jurisdiction.

24 MR. GREGORY: The trend has been the other
25 way in Parliament. They have been screaming their heads
26 off down there about trying to get a new institution
27 into the mortgage lending field, as if there were not
28 enough people seeking funds already. There is only
29 a certain amount of funds to go round. What they could
30 gain by having some new institution or new financing



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MR. FORTIN: I have never seen a definition

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is banking, or whether just that you get the privilege
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MR. FORTIN: No, I could not say that. I

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COMMISSIONER BROWN: Perhaps we should ask the

other question: if Parliament saw fit to take away

the privilege of issuing cheques to their customers,

would they no longer be trust companies?

THE CHAIRMAN: Let us hear from Mr. Fortin.

jurisdiction.

MR. GREGORY: The trend has been the other

way in Parliament. They have been screaming everywhere
off down there about trying to get a new institution
into the mortgage lending field, as if there were not
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1 field to gather money from the public to put into
2 mortgages, I do not know. That is what we do, and
3 loan companies certainly do it as well as trust companies,
4 although not to the same extent. I know that our
5 little company has 70 or 80 per cent in mortgages of
6 the money we get, except for the benefit of liquidity.
7 That is what the loan and trust companies are doing,
8 yet you still hear them down there in Parliament
9 talking about needing some new institution to gather
10 the funds of the public. I see that as our function.
11 We are trying to carry that out, and we are trying to
12 meet that public need.

13 MR. GODWIN: I would like to compliment
14 Mr. Faribault in respect to his extremely able present-
15 ation. I hesitate to follow him because I think his
16 remarks went right to the point. There are two points
17 which I feel bear repeating. They have both been
18 referred to.

19 The first is the fact that trust companies
20 in accepting deposits are not doing something that
21 is a novelty. For nearly 100 years now trust companies
22 have been performing this function of accepting
23 deposits from the public. Some of those deposits have
24 been treated as term deposits and some as demand
25 deposits. There have been chequing privileges in
26 respect to some. Others have been in the form of
27 pure savings, on which a somewhat higher interest is paid.
28 I think that the use of the term "near"banks, and
29 much of the terminology in the last couple of years
30 gives the impression that we are new in this field;

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MR. GODWIN: I would like to compliment Mr. Harbault in respect to his extremely able presentation. I hesitate to follow him because I think his remarks went right to the point. There are two points which I feel bear repeating. They have both been referred to.

The first is the fact that trust companies in accepting deposits are not doing something that is a novelty. For nearly 100 years now trust companies have been performing this function of accepting deposits from the public. Some of those deposits have been treated as term deposits and some as demand deposits. There have been checking privileges in respect to some. Others have been in the form of pure savings, on which a somewhat higher interest is paid. I think that the use of the term "nest" banks, and much of the terminology in the last couple of years gives the impression that we are new in this field;



1 that we are a Johnny-come-lately in the deposit field.

2 I think Mr. Hungerford's point should be
3 emphasized. For 100 years trust companies in a small
4 and modest way have been accepting and encouraging
5 deposits both of term and demand nature.

6 The second point that I think bears
7 repetition is in respect to the question of the cost
8 of operating a personal trust department. Mr. Brown
9 asked the question, would we or would we not favour
10 the advent of the banks into the field of personal
11 trust operation. I think that the answer may be given
12 obliquely by reference to what took place this morning
13 and by the amount of need that was brought out as to
14 the expense of operating a personal trust department.
15 I think that the trust companies of Canada, both those
16 that operate on a national scale and those that operate
17 in specific localities only have rendered a very good
18 account of themselves. I do not think that the service
19 that we render is perfect. I think that it has increased
20 in its efficiency very considerably over the last
21 several years. I think we are meeting head on the
22 frightfully difficult problem of employing men of
23 very ^{senior} serious calibre; professional men in a large
24 part to perform the senior functions required in a
25 personal trust operation. The very nature of the
26 business is such that it is not just run by a large
27 volume of clerical help with a minimum of senior
28 direction. It is just the opposite. The whole essence
29 of a personal trust business requires a very large
30 number of senior people, and the cost of employing these



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of a personal trust business requires a very large

number of senior people, and the cost of employing these



1 people is evident.

2 It seems to me that to broaden the powers of
3 the chartered banks so that they can enter into the
4 personal trust field is in fact saying that the trust
5 companies who have been in this field now for the
6 better part of a century are not performing the
7 function efficiently. If they are performing the
8 function efficiently then I think due consideration
9 should be given to the problem they have to meet in
10 respect to the cost factor.

11 I can speak on the basis of costing done in
12 our own company, which has been done now for many
13 years and which I believe is done with great accuracy.
14 We make a net profit of one-twentieth of one per cent
15 on the dollar handled in our personal trust department.
16 This means that the shareholders of the company have
17 \$50 for every \$100,000 in assets for which the company
18 assumes responsibility for a year. Now, this margin
19 of profit I think is sufficiently narrow that it
20 speaks for itself. I think if increased competition
21 is to be brought into our business it is a reflection
22 upon the manner in which the business has been
23 conducted. I do not think it is fair because I feel
24 the trust companies have given a good account of
25 themselves. It just means that the problem of meeting
26 this profit of one-twentieth of one per cent is going
27 to be intensified in the years ahead.

28 MR. FARIBAULT: Mr. Chairman, I hesitate to
29 try to add anything, but just by way of trying to
30 elucidate the difference between the trust companies



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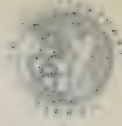
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elucidate the difference between the trust companies



1 and the banks because of deposits, which I understand
2 is the main question, I should say that there are two
3 ways of going at it. One is trying to examine what
4 was the original function of the bank historically.
5 My impression is, although again I may be wrong, that
6 the first banks were interested in exchange, and
7 actually from that exchange between countries they
8 went into the field of bills of exchange. They were
9 doing that from private funds. After a certain while
10 they got together deposits, but they were always
11 interested in the discount business and the immediate
12 futures. I think this is still primarily their
13 function. At the present time under our system I
14 think that the banks are primarily interested in
15 foreign exchange, although it is dealt with last because
16 it is not the most important quantitatively of their
17 functions, as well as discounting commercial paper
18 and bills from country to country originally, and
19 then within a single country. Deposits came last
20 historically as being a determinant of what is the
21 banking function.

22 At the same time historically there were
23 other people who were getting deposits. In France,
24 notaries were getting deposits. In the Province of
25 Quebec where I have practised as a notary, and I was
26 an articulated clerk when I started to practice, our
27 clients used to come and give us their monies to
28 invest. The trust companies do nothing else.
29 Actually we are restricted by the limit of those
30 deposits. There is no difference between what was



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1 done with the notary and is still being done in
2 France where there are no trust companies and what
3 is being done in this country by trust companies
4 receiving the deposits for investment, and for
5 investment in particular secured kinds of securities.
6 This is what we are still doing.



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1 The difference between employment of our
2 funds and the funds of the bank deposit is that we
3 are not in the short term business and actually all
4 these investments are either long term or medium
5 term. Now, admittedly we have an interest in short
6 term in order to keep sufficiently liquid for the
7 reimbursement of deposits, but this is the marginal
8 part of our business. In the case of the banks the
9 marginal part is the other way.

10 THE CHAIRMAN: The chartered banks do the
11 sort of banking which you describe, but in addition
12 to that they do savings bank business.

13 MR. FARIBAULT: That is right.

14 THE CHAIRMAN: This is also mentioned
15 in the British North America Act as being within
16 the federal jurisdiction, the savings banks, and
17 in that area that is where the marginal area as
18 between the trust companies and the banks really
19 is.

20 MR. FARIBAULT: Mr. Chairman, I would be --

21 THE CHAIRMAN: I am not suggesting that
22 I have any opinion on this at all, but this discussion
23 I find very helpful, but is not that the area where
24 you overlap to some extent? It may be that the position
25 taken by the trust companies is quite right; that they
26 have something in the nature of a trust which is
27 different from the methods by which the banks operate.
28 It may have substance, but from a practical point of
29 view it becomes much the same thing in that area, does
30 it not?

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1 MR. FARIBAULT: Well, I would admit that
2 the savings department of commercial banks is something
3 which normally ought to be somewhat different from the
4 commercial part of their business. I think the best
5 example of that is the example of the Quebec Savings
6 Bank. I think that was misjudgment to give federal
7 jurisdiction to the Quebec Savings Bank.

8 THE CHAIRMAN: But they did?

9 MR. FARIBAULT: Yes, I quite agree. The
10 reason was that there were only two of us and it
11 seemed feasible and the trend of these banks had
12 not been definitely established at the time of
13 consideration, so I think this is a fact that
14 due consideration was given by the federal govern-
15 ment but I think that is something that ought not
16 to be made much of in view of the development of
17 other institutions, and it is here I am getting out
18 of your field, but normally I would say that the case
19 for Quebec could very well give you an argument on
20 that.

21 THE CHAIRMAN: We are not suggesting that
22 anybody should be brought under the federal jurisdiction
23 that are not already under it. We are not suggesting
24 anything at the moment; we are exploring and taking
25 no position at all. We want to hear every possible
26 side to these questions and try to get to the funda-
27 mentals of the issues and find out what actually is
28 going on in the world.

29 COMMISSIONER LEMAN: Well now, dependant in
30 small area on your relationships with the banks, there



MR. PARIBAUT: Well, I would admit that the savings department of commercial banks is something which normally ought to be somewhat different from the commercial part of their business. I think the best example of that is the example of the Quebec Savings Bank. I think that was misjudgment to give federal jurisdiction to the Quebec Savings Bank.

THE CHAIRMAN: Now then give

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COMMISSIONER LEMAN: Well now, dependent in small area on your relationships with the banks, there



1 are references in your brief to clearing arrangements.
2 From some of the references it sounds partially like
3 a complaint, but they do not register a complaint.
4 Are you satisfied with the clearing arrangements
5 with the bank which you have?

6 MR. BEAN: I would say that we are satis-
7 fied with the present arrangements with the banks;
8 it is a very amicable arrangement with the individual
9 banks that we operate with as companies. It has
10 been one of long standing and while it may appear --
11 and sometimes I think causes us a little worry --
12 that something so essential to our operation can be,
13 shall I say, in the hands in some areas of people
14 who are in competition with us; nevertheless, we
15 certainly have no complaint and no real suggestions
16 to make except that I wish to point out to the Commission
17 that this is an important area of our operations, it
18 is something which was discussed a few minutes ago
19 and we think it is essential to the continuation of
20 this business which we are in.

21 COMMISSIONER LEMAN: The arrangements
22 between trust companies and the banks for clearing are
23 about the same as they are with these other institutions,
24 the credit unions and Caisse Populaire?

25 MR. BEAN: I believe so, but I do not
26 really know as a matter of fact. I think they are
27 similar.

28 MR. GREGORY: May I be a rebel again and
29 put forward another personal view. I have no way
30 of telling just how the banking costs have risen in the



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Now, Mr. Chairman, I am going to
between trust companies and the banks for clearing are
about the same as they are with these other institutions.
the credit unions and Calase Populinas?
MR. BRAN: I believe so, but I do not
really know as a matter of fact. I think they are
similar.
MR. GIBSON: May I be a rebel a little and
put forward another personal view. I have no way
of telling just how the banking costs have risen in the



1 matter of clearings lately, but I know their charges
2 to us have risen two or three times since I went into
3 this business 5½ years ago and that is one thing which
4 I will throw out. They are the sole proprietors of
5 it and they can lay down a cost to us and if they
6 are reasonable, then I have no complaint, but they
7 do seem to be coming along very rapidly.

8 COMMISSIONER LEMAN: Because in describing
9 the development of the banking business they do not
10 mention the fact that the banks have become the most
11 extensive payment system in the country also. That
12 is a service they have developed, but in paragraph 3.40
13 you mention that the charge is 20 cents, although
14 had the bank itself negotiated the cheque for the
15 payee it would have charged only 15 cents, and
16 then you say that most trust companies, in fairness
17 to their customers, absorb the excess charge.

18 Are you in the realm of fairness and
19 equity here or is it purely a matter of competition
20 and attracting business?

21 MR. FORTIN: May I observe that that
22 charge is not a part of the clearing, it is one of
23 exchange; that is to say, it relates to the payment
24 of a cheque cashed outside the same area in which the
25 cheque was issued. It is not by itself essentially
26 a part of clearing, it is an exchange factor.

27 COMMISSIONER BROWN: I have one further
28 question. It has been said elsewhere that the Bank
29 of Canada may take over the clearing. Would you like
30 to comment on that or would you rather give a comment



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question. It has been said elsewhere that the Bank
of Canada may take over the clearing. Would you like
to comment on that or would you rather give a comment



1 after the adjournment?

2 MR. FORTIN: I gather that by the act
3 of incorporation of the Canadian Bankers Association
4 they are given the right to operate a clearing house.
5 There were certain changes in the regulations which
6 brought this about and it is my understanding that
7 it is subject to review by the Treasury board. I
8 have nothing against the Bank of Canada, and I have
9 nothing against the chartered banks; I believe that
10 the clearing system has been efficiently operated
11 and I am not too clear whether it would be any better
12 or any cheaper unless the taxpayer was to pay the shot!

13 THE CHAIRMAN: We will adjourn now for
14 ten minutes.

15 --- Recess.

16
17 THE CHAIRMAN: We will now resume.

18 COMMISSIONER BROWN: I was wondering if
19 anybody else would care to comment on the suggestion
20 which, as I say, we have heard elsewhere, that the
21 Bank of Canada might conduct a clearing system.

22 MR. BEAN: I think, Mr. Brown, to give
23 some idea on that question we might again suggest
24 that, as I see it, the system as in effect in the
25 country at the moment is working out reasonably well
26 and I think our general feeling would be why disturb
27 something that is working out reasonably well and
28 there do not appear to be any apparent disadvantages
29 at the moment except from a purely selfish standpoint,
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1 that it might clarify the situation of a company such
2 as ours, but at the same time we do not see any need
3 for it at the moment.

4 COMMISSIONER LEMAN: In discussing earlier
5 your relations or difficulties with the banks the
6 real point of the matter is really summarized in your
7 own paragraph 38 of the summary. In effect you say
8 the difference in time between the trust companies
9 and the banks makes it obvious that if controls
10 are required, they must be specifically designed
11 for each type of institution. Did you have in mind
12 at the time that you wrote this that some controls
13 may be desirable, and if so, what sort would be
14 particularly well designed for trust companies?

15 MR. BEAN: I think the answer to that is
16 that I would say that we do not think that any controls
17 were desirable; that if in the opinion of the authorities
18 it was felt that controls were required, then that
19 they should not be -- should not necessarily be --
20 the same as they are for the commercial or chartered
21 banks. That even in our explorations of this
22 afternoon we discovered what appeared to be some
23 substantial differences and a great many similarities
24 between the two.

25 COMMISSIONER LEMAN: Would you hold the
26 same view regarding finance companies; no controls
27 are necessary there either?

28 MR. BEAN: With respect to interest rates
29 or with respect to applying it under certain circumstances?
30



that it might clarify the situation of a company such as ours, but at the same time we do not see any need for it at the moment.

COMMISSIONER LEWIS: In discussing earlier

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MR. LEWIS: I think the answer to that is

that I would say that we do not think that any controls were desirable; that if we had had the controls it was felt that controls were required, then that they should not be -- should not necessarily be the same as they are for the commercial or chartered banks. That even in our explorations of this afternoon we discovered what appeared to be some substantial differences and a great many similarities between the two.

COMMISSIONER LEWIS: Would you hold the

same view regarding finance companies; no controls

or with respect to applying it under certain circumstances?



1 COMMISSIONER LEMAN: We are in the realm
2 of monetary policy mostly.

3 MR. BEAN: I think that our general
4 philosophy has been that on this question of monetary
5 policy that the market in itself would probably exercise
6 sufficient control even in the area of the finance
7 companies.

8 COMMISSIONER LEMAN: Now, there is one
9 more area where there seems to be a difference of
10 opinion. Your brief suggests that the ceiling of
11 6 per cent on bank loans should be removed, whereas
12 Mr. Faribault's brief suggests they should not.

13 In relation to that I would like to refer
14 you to Mr. Faribault's paragraph number 60 and in this
15 case he speaks of the fact the banks are a public
16 service and it does not seem sound policy to let the
17 free play of offer and demand regulate such a rate,
18 whereas in your brief you express the thought in a
19 couple of places that the free play of offer and
20 demand should operate in this field as well as in
21 other fields. I do not know whether you would like
22 to comment first or let Mr. Faribault comment, but
23 there is a fairly direct opposition there between
24 the two statements.

25 MR. BEAN: Perhaps I can speak to it first.
26 The position which we have taken as an Association is
27 that the fewer impediments there are to the working
28 of a free market in the monetary system the better
29 it will operate, and certainly the 6 per cent rate
30 on bank loans is an impediment, but not an artificial



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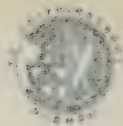
1 impediment. It does not seem to us that this is
2 working any more for the social benefit of the country
3 at 6 per cent than it did when it was at 7 per cent
4 and we see no reason, really, why it should be con-
5 tinued. We would be quite happy to see it removed.

6 COMMISSIONER LEMAN: I might ask Mr.
7 Faribault if he does not think the trust companies
8 also derive a public service and to the extent it
9 responds to free play and demand.

10 MR. FARIBAULT: Of course there is no
11 ^{difficult} real position in our thinking. It is just a question
12 of a choice; either you rely entirely on the working
13 of economics -- and then I think the stand taken by
14 the Association is correct -- or you do not rely
15 entirely, and I think the psychology of the public
16 would not accept it.

17 I think that when there is the possibility
18 of a multiplier being used, then you have got to say
19 that this multiplier -- which is a gift of the state --
20 must not be used for anything more than a limited profit;
21 the way to do it is impose the maximum interest rate.

22 Now, this is not discussing at all the
23 viewpoint of the Association; I think from a purely
24 economic aspect they are quite sound in their reasoning
25 but I think that it must be a mixture in this case
26 of social considerations -- which the economist will
27 call impediments or imperfections and which the
28 civilian or the biologist will call protection for
29 the public. In this case I think that the balance
30 is in favour of the protection aspect and that it ought



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is in favour of the protection aspect and that it ought



1 not to be removed for that reason, but I am quite
2 prepared to go further than that because I think that
3 this is the gist of the distinction.

4 THE CHAIRMAN: Why 6 per cent? Why would
5 you say it should stop at 6 per cent?

6 MR. FARIBAULT: What are the alternatives?
7 Either to make it flexible or to make it a higher one.

8 THE CHAIRMAN: Or a lower one?

9 MR. FARIBAULT: Or a lower one, possibly.
10 I do not think at the present time -- with the bank
11 rate as it is you cannot much argue with a lower one,
12 so my opinion is the other way around. How can it
13 be done? It could be done by delegating authority
14 to the Bank of Canada, possibly, or by a statute
15 which would be changed oftener than the Bank Act
16 in ten years. I think there is a great deal of
17 stability and at the present time this would seem to
18 be possibly a political decision, but you cannot
19 divorce finances from politics when you are in public
20 finance.

21 THE CHAIRMAN: What I would like to know
22 is why do you single out the 6 per cent as being the
23 appropriate interest rate, the ceiling?

24 MR. FARIBAULT: Well, at the present time --

25 THE CHAIRMAN: Why should not it be -- and
26 now that money has tightened up and there is an effort
27 by the Bank of Canada to tighten money to a certain
28 extent, is 6 per cent an appropriate ceiling for the
29 chartered banks?

30 MR. FARIBAULT: I think so. I think you cannot



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1 get any proper answer ---

2 THE CHAIRMAN: On what grounds do you come
3 to that conclusion?

4 MR. FARIBAULT: On the same grounds that
5 this is a field where you ought to cause as little
6 disorder as you can, and if you take the present
7 rate on mortgages, which is sticky and must always
8 be sticky, and you take it not only in the conventional
9 mortgages but also on the N.H.A. mortgages and take
10 also the rate at which finance companies are lending
11 money and the rate which prevails as regards bonds,
12 this is a rather proper rate and I see no reason
13 for changing it; it is merely a question of keeping
14 within a given consideration and I do not see what
15 would be the advantage in disturbing this situation
16 and, as I said, I would have to have a very strong
17 argument in favour of another rate before I would
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1 COMMISSIONER LEMAN: But this is generally
2 speaking: As you know, the banks under that system
3 have been forced at times to allocate credit.

4 MR. FARIBAULT: That is right.

5 COMMISSIONER LEMAN: You think this is a good
6 socially desirable way of allocating resources in
7 the economy?

8 MR. FARIBAULT: Well, if it were the only
9 way possible it might not be good, but there are a
10 number of other institutions and I think, by and
11 large, this is a good way. There comes a time when
12 there must be some kind of allocation of credit.
13 There came a time when the trust companies would not
14 lend on a mortgage. It all depends what the general
15 circumstances are, and I don't think there is any
16 possible stock answer to that. It is a decision
17 which must be taken by government after full
18 consideration of circumstances. I don't there is
19 any merit in discussing it ideally. I think it is
20 just a matter of decision -- of balancing the
21 advantages and disadvantages.

22 COMMISSIONER BROWN: I was rather interested
23 in your argument that because of the multiplication
24 factor there should be this limit on interest
25 rates. Is there not the other way of looking at it,
26 that is that the 8 per cent ratio is a limiting
27 factor and, therefore, if it is a limiting factor
28 you have got a control and why should you restrict them
29 on interest rates?

30 MR. FARIBAULT: Because actually the public

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1 will not reason in terms of 8 per cent and 12
2 per cent multiplied. They will just reason for what
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4 is why you cannot get away from that. All the other
5 things are considerations which may be sound for
6 an economist but not for the public. You have got
7 to give the public some kind of stability in terms
8 which he will understand, and I think this is the
9 only way -- "What am I paying?"

10 COMMISSIONER BROWN: Can we ask another
11 question on this: If the Association is in favour
12 of lifting this 6 per cent ceiling, what would be
13 your reaction to the suggestion that you would still
14 be restricted in relation to a bank rate?

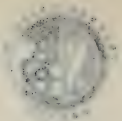
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16 COMMISSIONER BROWN: I was asking Mr. Bean,
17 actually, from the point of view of the Association,
18 because it is their argument I am dealing with now.

19 MR. BEAN: In other words, rate was to flow
20 in a specified relationship to the bank rate?

21 COMMISSIONER BROWN: This is just another
22 curve ball I am throwing.

23 MR. BEAN: Well, I would suppose to the extent
24 the bank rate was set to reflect the market, then we
25 would have no philosophical difference with that
26 thought. In other words, it would be one stage
27 removed from the market but still affected by and
28 influenced by the market. That would probably have
29 been the case had you gone along with the holding *old type of*
30 rate we had up until the last few weeks.



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1 COMMISSIONER BROWN: This is similar to
2 the U.K. -- the intermediate step -- that completely
3 removing next month's interest rates from the banks
4 might begin to relate a maximum to the bank rate.
5 MR. BEAN: As I say, to the extent that it
6 reflects the market rate, which is to some extent --
7 at least, the bank does; the bank rate is certainly
8 influenced by the market. Then, I think we would
9 have no particular objection to doing it that way.
10 It might be a better solution than a complete freedom
11 of the rate, though I think our general thinking
12 has been that it would be preferable to release it
13 completely.

14 COMMISSIONER MACKINTOSH: I have a few
15 questions on liabilities including deposits, an
16 area which my colleagues have already explored to
17 a considerable degree, although I thought a little
18 inconclusively. You say in paragraph 333, speaking
19 of deposit accounts, that the rate of interest paid
20 moves with broad changes in interest rates: Could
21 you be a little more specific as to what you mean by
22 broad changes? Does that mean with long lags and
23 some inaccurate correspondence?

24 MR. BEAN: Yes, I would say that is pretty
25 well precisely what it means. In other words, it
26 would not respond until there is what appears to be
27 a new level of interest rates set.

28 COMMISSIONER MACKINTOSH: So that the response
29 of interest on deposits to changes in interest rate
30 is not very frequent and, I take it, usually follows



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1 and never precedes changes in the interest rates?

2 MR. BEAN: I would think that is a fair
3 statement. We are referring now to deposits, not
4 to what we term guaranty investment certificates where
5 the rate does change very quickly.

6 COMMISSIONER MACKINTOSH: Yes, I understand
7 that. You also say in the reference which was brought
8 up before -- and I think it is the next paragraph --
9 that in relation to chequing accounts that you try
10 to discourage current account use: At about what point
11 does discouragement start?

12 MR. BEAN: Perhaps some person who does it
13 on a discouragement basis will answer this question.
14 I think some indication is given in the charges
15 which are made by certain companies of one free cheque
16 per month for a \$100 balance, and that sort of thing.

17 COMMISSIONER MACKINTOSH: That is the chief
18 method you use of discouraging?

19 MR. BEAN: But I believe certain companies
20 go to the extent where this is abused they would suggest
21 they take their account across the street and take
22 out a chequing account with the bank.

23 COMMISSIONER MACKINTOSH: Would this point
24 of division correspond pretty much with what the
25 banks use on what they call their personal savings
26 accounts?

27 MR. BEAN: I think it is similar. I don't
28 believe it corresponds precisely, and there is no
29 hard and fast rule throughout the trust business on
30 these charges. It varies from company to company.



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1 COMMISSIONER MACKINTOSH: But you do definitely
2 look on these as unprofitable accounts as far as the
3 trust companies are concerned? You would
4 rather do without them?

5 MR. BEAN: We look upon accounts with an
6 unprofitable balance, which has too much chequing,
7 as being undesirable, but there are a great many
8 accounts -- the ones we discussed earlier -- who
9 desire to have chequing privileges but which are very
10 good savings accounts.

11 COMMISSIONER MACKINTOSH: Because of the large
12 balances they keep?

13 MR. BEAN: That is right, because of the
14 balances.

15 COMMISSIONER MACKINTOSH: Looking at the time
16 deposits and the short certificates this, I take it,
17 is a pretty highly competitive business and here your
18 interest rates are quite sensitive. I am referring
19 also to what you say somewhere -- I forget where it
20 is -- about wholesale savings.

21 MR. BEAN: Yes, in both those areas it is,
22 as you suggest, very sensitive to changes in rates.
23 There is always a continuing amount of certificates
24 which are maturing and coming up for renewal, as we
25 say in the business, and unless we can offer the
26 holders of those certificates an attractive rate we
27 cannot retain that business, and, therefore, they have
28 to compete in the market-place with other alternative
29 types of investment because, in effect they are
30 investments looking at them from the holders' point



COMMISSIONER MACKINTOSH: But you do definitely
look on these as unprofitable accounts as far as the
trust companies are concerned? You would
rather do without them?

MR. BEAN: We look upon accounts with an
unprofitable balance, which has too much checking,
as being undesirable, but there are a great many
accounts -- the ones we discussed earlier -- who
desire to have checking facilities and still have
good savings accounts.

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1 of view.

2 COMMISSIONER MACKINTOSH: What advantage
3 is there that you offer to lead a corporation to
4 invest in the short-term certificates rather than
5 invest in commercial paper or treasury bills -- any
6 other kinds of short obligations? What is the advantage
7 that leads them to use you as an intermediary?

8 MR. BEAN: I would say off-hand it is security
9 and knowledge of the fact that the accommodation --
10 at least, that they can place these accounts with the
11 trust companies, and the rate of return. I think
12 perhaps some person who does a broader business might
13 speak to that point.

14 MR. HODGSON: Yes. I think dealing with
15 treasury bills first, if a non-individual depositor --
16 or an individual depositor, for that matter -- wishes
17 to invest a substantial sum for a period of time,
18 the rates that the trust companies offer at any given
19 time are largely geared to the current rate set at
20 the moment, and we will accept the deposit and provide
21 repayment with no capital loss at the time the funds
22 are required, and unless a treasury bill is bought
23 for a specific date there is a risk of capital loss.
24 So, that is one advantage.

25 COMMISSIONER MACKINTOSH: You mean this is
26 not a term deposit?

27 MR. HODGSON: It is a term deposit.

28 COMMISSIONER MACKINTOSH: But you fix the
29 term to his requirements?

30 MR. HODGSON: To his requirements. In so far



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UNITED STATES DEPARTMENT OF THE TREASURY

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1 as commercial paper is concerned, some people with
2 funds are, sometimes through restrictions of their own,
3 unable to hold such a paper but are permitted to make
4 deposits with trust companies.

5 COMMISSIONER MACKINTOSH: Would this be used,
6 in the corporation field, more by smaller corporations
7 without a very active treasury department than by
8 large corporations?

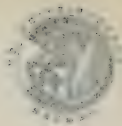
9 MR. HODGSON: Both, sir; some with a very
10 large treasury department.

11 COMMISSIONER MACKINTOSH: Are you able to
12 offer them a better yield?

13 MR. HODGSON: Sometimes we are; sometimes
14 we are not; not only because of the interest rate
15 but also certain situations arising out of debt
16 management and fiscal matters. For example, at the
17 present time the gross yield that a trust company
18 would pay on a deposit out next April, let us say,
19 after tax in the hands of the depositor is very much
20 less than if the depositor were to acquire a low
21 coupon Government of Canada bond which would give
22 him a net after tax yield very much higher. So that,
23 situations sometimes arise where we cannot be
24 competitive for this kind of situation.

25 COMMISSIONER MACKINTOSH: Well, could I infer
26 from that that the volume of this business varies
27 greatly according to the general credit conditions
28 on the market?

29 MR. HODGSON: Yes, that is correct. It depends
30 not only on our competitiveness in terms of the market-



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1 place at any given time, but also on the degree of
2 liquidity of the economy.

3 COMMISSIONER MACKINTOSH: Whether companies
4 have idle funds they want to employ?

5 MR. HODGSON: Yes.

6 COMMISSIONER MACKINTOSH: What implications
7 does that have for the kind of liquidity you have
8 to maintain, as it were, behind these deposits in
9 your assets?

10 MR. HODGSON: Well, in the operation of the
11 portfolio -- and keeping a sort of revolving fund --
12 one of necessity has to either have matched securities --
13 deposit liability and the asset -- plus the fact ---

14 COMMISSIONER MACKINTOSH: You can do that?

15 MR. HODGSON: Not always can one do it -- not
16 and make money. One has to, generally speaking, for
17 a little longer term investment portion of the portfolio
18 and a liquid, readily acceptable reserve.

19 COMMISSIONER MACKINTOSH: Aside from the
20 matching maturities, are there in the business any
21 rules of thumb as to how you maintain this liquidity?

22 MR. HODGSON: Liquidity is a difficult word
23 to define, but in call loans which dealers ...

24 COMMISSIONER MACKINTOSH: You know what it
25 means when you haven't got it.

26 MR. HODGSON: ... or treasury bills -- yes.
27 Generally speaking, and I can only speak for myself,
28 of course, -- I would say close to 10 per cent of
29 short-term readily marketable liquid ...

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1 later of this business being quite volatile: Does
2 that mean over the very short run, or is it related
3 to the business cycle?

4 MR. HODGSON: Well, sometimes it is related
5 to the business cycle. Sometimes it is related to --
6 if one likes to use the word "confidence" -- and I
7 am driving for an example. There are times when
8 presumably corporations will hold their cash balances
9 rather than disperse them either in dividends or
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1 Normally, however, deposits of this type
2 are, generally speaking, for the short term employment
3 of funds. Organizations -- hospitals or other
4 organizations will get funds out of a campaign which
5 they require to employ temporarily for their sub-
6 sequent needs and disbursements and this kind of thing.
7 Generally speaking, they are very short term funds.

8 COMMISSIONER MACKINTOSH: I was referring
9 when I asked if there was a difference between smaller
10 and larger companies to some degree and I would infer
11 you offer a service to the slightly less sophisticated
12 investor. A hospital treasurer usually does not
13 get into treasury bills on the money market.

14 MR. HODGSON: That is true.

15 COMMISSIONER MACKINTOSH: But the local
16 trust company office knows how to do these things
17 for him. I take it this underlies a fair amount
18 of this difference?

19 MR. HODGSON: That is correct and some
20 smaller companies with smaller amounts will keep
21 a cash reserve to employ.

22 COMMISSIONER MACKINTOSH: Turning to your
23 guaranteed investment certificates on which you say
24 the general preference is for terms of from three
25 to five years, I think paragraph 3.27, is this a
26 pretty stable relationship or has it been changing?
27 Is there any trend in there?

28 MR. BEAN: Speaking on behalf of our own
29 company in this business of term, Dr. Mackintosh,
30 it seems to us that the general tendency -- and we do



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1 mostly a retail business, shall I say, in things :
2 like G.I.C.'s although it is a quite substantial one --
3 but the tendency is for most people to take the
4 shortest term at the highest rate, that is, an
5 individual buying a G.I.C. and I think that pretty
6 well is borne out. In most cases you will find
7 that the trust companies pay the higher rate in that
8 three to five year period.

9 COMMISSIONER MACKINTOSH: You said take
10 the shortest term at the highest rate?

11 MR. BEAN: Yes.

12 COMMISSIONER MACKINTOSH: I thought you
13 said "and the highest rate".

14 MR. BEAN: No, they want the highest
15 possible rate in the shortest possible term.

16 MR. GREGORY: People, I think, know
17 they are going to live three years, but they are
18 never sure they are going to live five, but that is
19 affected to some extent by whether they think the
20 rate is rising or they think it is falling because
21 two or three years ago when it was going down they
22 would buy the long term and if it is going to go up
23 they will buy shorter terms.

24 COMMISSIONER MACKINTOSH: Is this business
25 responsive to interest rate changes?

26 MR. BEAN: I would say it is quite responsive
27 to changes in interest rates both as to the volume
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2 most companies got up to the highest rate in history
3 which was back in late 1959 or early 1960 when they
4 paid 6 per cent, I know that in my own operation it
5 attracted large amounts of money and it is reflected
6 in the figures which you have before you. There
7 was a very large growth there which I do not think
8 was too profitable from our standpoint but it cer-
9 tainly demonstrated the effect which rates have upon
10 the availability of money for this purpose.

11 COMMISSIONER MACKINTOSH: Are these
12 primarily bought by individuals?

13 MR. BEAN: I think there is in the papers
14 from the study -- there is an analysis by size and
15 holders and my recollection is that some 85 per cent
16 are held by individuals. I think the average amount
17 is something between \$4,000 and \$5,000 in their holdings,
18 so it is primarily a retail vehicle for investment.

19 COMMISSIONER MACKINTOSH: There is also
20 in the study a chart which seems to indicate that the
21 three to five years certificates have a smaller share
22 of the total but I think that is because the loan
23 company debentures are included in there?

24 MR. BEAN: I think so.

25 MR. WELLS: Another reason, sir, is
26 that the individual is more apt to buy the three to
27 five year term and the larger corporations either
28 demand or shorter term. In our own case, for instance,
29 a very, very substantial part of our guarantee funds
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1 COMMISSIONER MACKINTOSH: Are all trust
2 companies in this field?

3 MR. BEAN: I think now, yes. At one
4 time they were not. The Canada Permanent before
5 the merger was not in that business but since the
6 merger with Toronto General Trust I think that is
7 right, that they are all in that business.

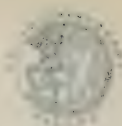
8 COMMISSIONER MACKINTOSH: There is not
9 then legislation which limits the power of trust
10 companies to take deposits and sell these certificates?

11 MR. BEAN: No.

12 COMMISSIONER GIBSON: Dr. Mackintosh,
13 just in passing you were talking about this chart
14 which is chart 2-1 near page 25 in the study. The
15 thing interesting here is the number of from three to five
16 years does not seem to be increasing at all, but the
17 amount of over five years has increased a lot proportionate
18 This is a sample, of course. It is a sample from
19 five trust and loan companies. Is this typical of
20 what has been going on? Three to five years has
21 got to be about the smallest group. It is just past
22 page 24 in section 2.

23 MR. WELLS: I think the trust company
24 picture alone as distinct from the loan company
25 picture does not show that same result.

26 COMMISSIONER GIBSON: Then the trust
27 companies in the amount of five cannot be typical
28 because the three to five year group has pretty near
29 passed out of existence. The over fives have become
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2 MR. BEAN: I do not want to question any
3 of these figures, but they do not agree certainly with
4 the experience of our own company. There is no
5 relationship between the chart and our experience.

6 COMMISSIONER MACKINTOSH: If this includes
7 deposits, investment certificates and debentures, I
8 rather infer the over five years were loan company
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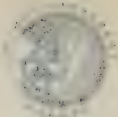
10 MR. BEAN: They must be but I do not
11 really think they had that proportion over five years
12 even amongst their debentures.

13 MR. TAYLOR: Mr. Chairman, I think it
14 could be said that investment certificates, term
15 deposits and debentures, no matter what you would
16 call them whether issued by a trust company or loan
17 company are in the three to five year term -- either
18 three years or five years, not four or two or one,
19 and I would think the percentage over five years
20 would be very small.

21 COMMISSIONER GIBSON: Would you think
22 the chart was incorrect?

23 MR. TAYLOR: I have not had an opportunity
24 to check these figures, but I would be sure that
25 I would be correct in saying that three and five
26 year term certificates would represent far more
27 than 75 per cent of the total issued by all companies.

28 COMMISSIONER GIBSON: You see, this study
29 you presented us with shows it as being less than
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1 total.

2 COMMISSIONER MACKINTOSH: You having
3 initiated the study, could we leave it to you to
4 correct it if it is not correct?

5 MR. TAYLOR: Our company is one of the
6 companies in this chart of these five.

7 MR. BEAN: So is ours and I do not see
8 where they got the figures.

9 COMMISSIONER MACKINTOSH: Somebody must
10 have answered the questionnaire incorrectly.

11 MR. BEAN: I think it must have been the
12 computer, Dr. Mackintosh.

13 MR. TAYLOR: May I say, Mr. Chairman,
14 that this shows that even the University of Western
15 Ontario can make a mistake. If I am not in order
16 in saying that, sir, I withdraw it.

17 MR. FORTIN: You will notice, if you relate
18 it to 1951, of course it drops. It is about 30 per
19 cent odd.

20 COMMISSIONER GIBSON: What is?

21 MR. FORTIN: The over five years.

22 COMMISSIONER GIBSON: Yes, and the three
23 to five years is seven to eight per cent.

24 MR. TAYLOR: If you notice the difference
25 in 1951, which is the first year of the chart, this
26 does not show too much difference in effect between
27 1960 and 1951.

28 MR. BEAN: I am sorry, perhaps we have
29 villified the University of Western Ontario unfairly.
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3 Ontario.

4 MR. BEAN: This chart is based on outstanding
5 G.I.C.s taken at the time of issue and quite honestly
6 it is a very confusing document.

7 THE CHAIRMAN: Well, if that is so and
8 it requires correction, why should we bother with
9 it at the moment?

10 MR. BEAN: I do not think it is something
11 which is going to contribute very much to this dis-
12 cussion because it was based upon that premise and
13 it was done on an estimated basis to provide this
14 data. Quite honestly we wondered why they wanted
15 it, but that is not based upon the amount outstanding
16 at any one time in terms of the number of years to
17 go; it is based on what is outstanding judged by
18 the term at the time of issue. It is a very con-
19 fusing chart.

20 COMMISSIONER GIBSON: Would it be possible
21 to give us a rough figure of the distribution as to
22 last year or now or some time recently?

23 MR. BEAN: That is an easy thing to produce.
24 In other words, at the end of any one year to say
25 what the terms were outstanding in G.I.C.s at that
26 time is simple. This was very difficult.

27 COMMISSIONER MACKINTOSH: If I may go on
28 to something else, in your main brief in paragraph 25
29 you state your position as being against any deposit
30 insurance system. If I remember rightly you based



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Ontario.

MR. BEAN: This chart is based on outstanding

G.I.C.s taken at the time of issue and quite honestly

it is a very convincing document.

THE CHAIRMAN: Well, if that is so and

it requires correction, why should we bother with

it at the moment?

MR. BEAN: I do not think it is something

which is going to contribute very much to this dis-

cussion because it was based upon that premise and

it was done on an estimated basis to provide this

data. Quite honestly we wondered why they wanted

it, but that is not based upon the amount outstanding

at any one time in terms of the number of years to

go; it is based on what is outstanding judged by

the term at the time of issue. It is a very con-

vincing document.

COMMISSIONER GIBSON: Would it be possible

to give us a rough figure of the distribution as to

last year or now or some time recently?

MR. BEAN: That is an easy thing to produce.

In other words, at the end of any one year to say

what the terms were outstanding in G.I.C.s at that

time is simple. This was very difficult.

COMMISSIONER MACKINTOSH: If I may go on

to something else, in your main brief in paragraph 25

you state your position as being against any deposit

insurance system. If I remember rightly you based



1 this on the difference in Canadian and United States
2 conditions. What difference is there in conditions
3 that makes it desirable there and undesirable here?

4 MR. BEAN: I think that the principal
5 reason for suggesting that was that in the United
6 States generally there are a multiplicity of very
7 small organizations who probably have not -- and
8 I am not criticizing their set up -- who perhaps
9 lack the same restrictions which the companies
10 concerned back in this country have, and the same
11 regulations and the same provision and it was felt
12 that in view of the record of the various companies
13 in the business that deposit insurance would add
14 little to the situation here and that undoubtedly
15 it would be just one more added cost in the long run
16 to people depositing money in these institutions.

17 COMMISSIONER MACKINTOSH: As I understand
18 the effect in the United States which it might also
19 have here, it brings within the field of regulation
20 institutions that are not within the federal reserve
21 system or under federal jurisdiction?

22 MR. BEAN: Well, that certainly is true
23 and it is one of the things which we considered
24 at the time it was being discussed, that it might
25 possibly be a device by which, on a voluntary basis --
26 something which was a real constitutional problem
27 in this country might be overcome.

28 COMMISSIONER MACKINTOSH: I notice that
29 in the study there is some suggestion that possibly
30 it might simplify trust company problems?

that makes it desirable there and undesirable here?

MR. EMMAN: I think that the principal reason for suggesting that was that in the United States generally there are a multiplicity of very small organizations who probably have not -- and I am not criticizing their set up -- who perhaps lack the same restrictions which the companies concerned back in this country have, and the same regulations and the same provision and it was felt that in view of the record of the various companies in the business that deposit insurance would add little to the situation here and that undoubtedly it would be just one more added cost in the long run to people depositing money in these institutions the effect in the United States which it might also have here, it brings within the field of regulation institutions that are not within the Federal Reserve system in some cases (uninsured).

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COMMISSIONER MACKINTOSH: I notice that in the study there is some suggestion that possibly it might simplify trust company problems.



1 MR. BEAN: Well, as a device it might
2 possibly lead to the companies and the provinces
3 coming in on a voluntary basis. Irrespective of the
4 jurisdiction and the constitutional problems it seems
5 that they might voluntarily and would voluntarily
6 come into the orbit, shall I say, of a deposit
7 insurance scheme which would unify the regulations
8 and perhaps the government legislation that way.

9 COMMISSIONER MACKINTOSH: I notice also
10 in the study there are no great divergencies in
11 the liquidity ratios of various companies and they
12 seem to go on the assumption that everything but
13 mortgages and stocks are liquid. Is this con-
14 sistent with the great expansion that you have
15 had in the deposits or, put it another way, hasn't
16 the great expansion of deposits modified your ideas
17 of liquidity?

18 MR. HODGSON: I think perhaps, Dr.
19 Mackintosh, one of the comments that is in the University
20 of Western Ontario study arose from the more or less
21 dissatisfaction with the information that they received.
22 This was largely due, I personally felt, to the way
23 the information was requested. For example, the
24 question was put: "Tell us what you think the
25 percentage of liquidity of your holdings is and start
26 off with 100 per cent for cash and 98 per cent for
27 treasury bills, 100 per cent for call loans: given
28 that start, then go down through your assets". We
29 had some few discussions on this to try and find out
30

MR. BENN: Well, as a device it might

possibly lead to the companies and the provinces coming in on a voluntary basis. Irrespective of the jurisdiction and the constitutional problems it seems that they might voluntarily and would voluntarily come into the orbit. Shall I say, of a deposit

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1 what they actually meant and would it not have been
2 better for them to ask us for the maturities of our
3 securities and the classes of securities. So I
4 think perhaps the words that are in the study there
5 arise out of their inability to deal with the
6 information that they got back because everybody took
7 a different opinion on this.

8 COMMISSIONER MACKINTOSH: They did not
9 end up with what are the odds on the Grand National?

10 MR. HODGSON: No, but in answering the
11 general question each company will have a different
12 view of readily liquid securities depending on the
13 maturity of their deposits and the kind of deposit
14 liabilities that they have. Companies which are
15 predominantly long term perhaps can have less because
16 the same demand is not there for a sudden repayment
17 of deposits with the inability of them being able
18 to secure replacing ones.

19 COMMISSIONER MACKINTOSH: Do you not have
20 any rules of thumb? It must be awfully hard in
21 your company to have in mind the spectrum of your
22 deposits and liabilities.

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COMMISSIONER MACHINER: Do you not have any rules of thumb? It must be awfully hard in your company to have in mind the spectrum of your deposits and liabilities.



1 I mentioned specifically in our case about 10 per
2 cent. We try to keep about 10 per cent over all
3 readily marketable securities.

4 COMMISSIONER MACKINTOSH: I think that is all
5 I have to ask, Mr. Chairman, at the moment.

6 COMMISSIONER GIBSON: Mr. Chairman, arising
7 out of Dr. Mackintosh's questions, I should like to
8 ask one or two questions about how you respond on the
9 liability side in competing for deposits of investment
10 securities, to changes in modern conditions. I hesitate
11 a little, but I should like to refer you to a couple
12 of charts here.

13 THE CHAIRMAN: Mr. Gibson, I think some of
14 them cannot quite hear you.

15 COMMISSIONER GIBSON: I am sorry, Mr. Chairman.
16 Chart 27 in the study is very interesting.

17 COMMISSIONER MACKINTOSH: Would you give the
18 page, please?

19 COMMISSIONER GIBSON: Well, it appears just
20 after page 248. It faces page 248 in the study.

21 This is a very interesting chart indeed showing
22 as it does the chequable deposits of trust and loan
23 companies from 1951 to 1961 and their relationship
24 to changes in the relevant interest rates on those
25 deposits and the treasury bill rate. What the chart
26 suggests to my way of looking at it is that when your
27 interest rate, that is the rate on such deposits that
28 you pay, is in excess of the treasury bill rate your
29 deposits jump very sharply. There is a picture of
30 them going up in 1958 there which is very marked.



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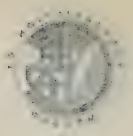


1 There is the same situation in 1954 and 1955 with
2 a very marked increase at a time when the treasury
3 bill rate is low in relation to the trust company
4 deposit rates. This process seems to have occurred
5 again to some degree in 1960, but after treasury bill
6 rates get well above the rates paid by the trust
7 companies then these deposits tend to flatten out
8 and on a couple of occasions have actually declined.
9 Is this kind of reasoning sensible? In other words,
10 is it reasonable to assume these fluctuations have
11 mainly to do with interest rates paid and their
12 relationship to market interest rates, of which the
13 treasury bill is one of the most variable?

14 MR. BEAN: Mr. Gibson, I think that there
15 definitely is a relationship between the two. We had
16 a discussion earlier about these true savings deposits
17 and so on. A great percentage of the depositors
18 in the trust companies are people who are quite
19 conscious investment-wise, and who will move funds
20 from savings accounts into alternative investments
21 providing there is a reasonable degree of attraction.
22 A lot of the funds taken out of the chequable deposit
23 accounts here you will probably find in the G.I.C.
24 department of the same trust company.

25 COMMISSIONER GIBSON: That is, not necessarily
26 outside of the trust company?

27 MR. BEAN: Not necessarily outside of the
28 trust companies themselves. I think you will find
29 a little different situation in the picture of the
30 G.I.C. issuances and the changes of the business.



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1 COMMISSIONER GIBSON: There is a very marked
2 difference. It has a more rapid growth rate and
3 seems to be more competitive when money is tight.

4 MR. BEAN: Yes, and this has absorbed a lot
5 of the changes in the chequable accounts. There is
6 certainly a steady withdrawal from chequable accounts
7 and transfer across to the G.I.C. accounts.

8 COMMISSIONER GIBSON: Moving back and forth?

9 MR. BEAN: Not so much back but a lot forth.

10 COMMISSIONER GIBSON: Well, you keep building
11 up these chequable accounts when your rates are, as
12 in the case of this chart, above the treasury bill
13 rate, but that means above the other flexible market
14 rates, or quite a few of them including, I think above
15 some of the rates you pay on G.I.C.

16 MR. BEAN: No, sir, I think another factor
17 in that regard which should be taken into consideration
18 is that those are probably the periods, and looking
19 at the charts I am sure this can be verified, when
20 the money supply of the country has been increasing
21 fairly rapidly.

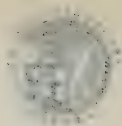
22 COMMISSIONER GIBSON: When your deposits
23 were rising were at times when money supply was in-
24 creasing?

25 MR. BEAN: That is right.

26 COMMISSIONER GIBSON: I think that is true.
27 When it gets tight they tend to go down?

28 MR. BEAN: That is right.

29 COMMISSIONER GIBSON: So the suggestion that
30 the rates of these deposits are not flexible enough



COMMISSIONER GIBSON: That is a very good

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COMMISSIONER GIBSON: So the suggestion that

the rates of these deposits are not flexible enough



1 to meet short-term money competition?

2 MR. BEAN: Right.

3 COMMISSIONER GIBSON: That is indeed indicated
4 by your own G.I.C. rates.

5 MR. BEAN: That is offset by the flow from
6 the chequing accounts into G.I.C.

7 COMMISSIONER GIBSON: It is very interesting
8 that deposit accounts of this kind should be so
9 highly variable and sensitive. Are there a lot of
10 big accounts?

11 MR. BEAN: If you look at chart 215 --

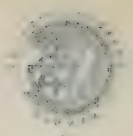
12 COMMISSIONER GIBSON: That was the next one
13 I was going to refer to.

14 MR. BEAN: This ties the two of them together.
15 You will see there is an inverse relationship between
16 the movement.

17 COMMISSIONER GIBSON: Does this mean there
18 are quite a lot of large deposits among these chequable
19 deposits?

20 MR. BEAN: There are not too many large
21 deposits. There is an analysis of them in there.
22 In your terms of thinking the analysis would show,
23 I should think, a fairly close relationship between
24 the size of savings accounts each year and those in
25 the chartered banks. The distribution is roughly
26 the same. A number of companies have looked at it
27 very carefully, and this distribution analysis is
28 very similar. Primarily it is personal accounts.

29 COMMISSIONER GIBSON: This is a very clear
30 response to the monetary policy, particularly as



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1 indicated by chart No. 8.

2 MR. BEAN: As we said in the brief, Mr.
3 Gibson, we feel that we do respond and are very much
4 subject to indirect effects, and respond very quickly
5 to monetary policy.

6 COMMISSIONER GIBSON: I want to ask you about
7 this interesting group, term deposits, debentures
8 and investment certificates. They do not seem to
9 show as much response, and you say they at times go
10 inversely?

11 MR. BEAN: Yes. They would level off and
12 respond more quickly in themselves and the reaction
13 does not appear in the same way.

14 COMMISSIONER GIBSON: You have a long-term
15 group here which is not as marked as the deposit
16 accounts.

17 MR. BEAN: That is right.

18 COMMISSIONER GIBSON: Why have you been so
19 much more affected in competing on this term basis
20 than you have on a regular deposit basis? Is there
21 any particular explanation of that? You have gone
22 ahead in the field here in competition from this
23 term deposit business, but on the other you have gone
24 more or less average.

25 MR. BEAN: I think the term deposit business
26 does include more corporate short-term element than
27 the chequing account, so undoubtedly that has been
28 one of the factors involved.

29 COMMISSIONER GIBSON: Does it reflect quite
30 notable activity in the money market in recent years?



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COMMISSIONER GIBSON: Does it reflect quite

notable activity in the money market in recent years?



1 Maybe there have been big changes in the last 90
2 years, Mr. Hungerford. This is relatively new,
3 is it not?

4 MR. HODGSON: What is that, sir?

5 COMMISSIONER GIBSON: This emphasis on highly
6 competitive money market rates?

7 MR. BEAN: Yes, I think Mr. Gibson, you will
8 agree, that it is relatively new throughout the
9 continent.

10 COMMISSIONER GIBSON: Yes.

11 MR. BEAN: You have a much more conscious
12 group of corporate executives, for instance, who are
13 conscious of the value of money, probably for the
14 first time in a good many years, and they are quite
15 anxious to make it workable. All we do here is give
16 them the opportunity on the same basis we give our
17 other customers, letting it work through us.

18 MR. HODGSON: There is a technical problem,
19 of course, in respect to deposits both chequable and
20 other, in the sense that the interest is calculated
21 on a minimum balance in a period, which does not
22 lend itself to the same thing.

23 COMMISSIONER GIBSON: Are there any rates
24 that you particularly watch as to change, such as
25 these rates for term deposits?

26 MR. HODGSON: Yes, the treasury bills.

27 COMMISSIONER GIBSON: This should be the
28 most important single indicator, should it?

29 MR. HODGSON: And the general yield on
30 curb on bonds, where it is not affected by these



years, Mr. Hungerford. This is relatively new.

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1 discount situations that were mentioned.

2 COMMISSIONER GIBSON: Which is really a situation
3 in respect to which you cannot compete?

4 MR. HODGSON: That is correct.

5 COMMISSIONER GIBSON: Because you cannot
6 offer anyone a tax benefit?

7 MR. BEAN: That is right, but there are not
8 many people taking five or five and a half on G.I.C.
9 when they can get a government bond at the same rate.
10 Some will.

11 COMMISSIONER GIBSON: This has now become
12 a very active competitive business from your point
13 of view?

14 MR. BEAN: Very much so. You can see there
15 is wide diversity in terms quoted by various companies.
16 It is a pretty competitive business.

17 COMMISSIONER GIBSON: Do you find this
18 international competition of importance?

19 MR. BEAN: Yes, it is a factor in respect
20 to short-term.

21 COMMISSIONER GIBSON: Do you go into that
22 sort of thing yourself?

23 MR. BEAN: As an investment?

24 COMMISSIONER GIBSON: No.

25 MR. BEAN: Oh, we do ^{not do} swaps. Do you know of
26 anybody who does swaps?

27 MR. HODGSON: Not as an agent for a customer,
28 but on occasion we will make an investment in such
29 a thing.

30 COMMISSIONER GIBSON: One of the other major



1 situations that were mentioned.

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29 a thing.

30 COMMISSIONER GIBSON: One of the other major



1 factors in competing for deposits occurs as a result
2 of the trend in the last decade to open branches
3 in suburbs and shopping centres and so on.

4 THE CHAIRMAN: It is nearly five o'clock.
5 If it is in order we will adjourn now. We will adjourn
6 until 8.45 A.M. tomorrow.

7 --- Adjournment.

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Royal Commission on Banking and Finance

The Trust Companies Association of Canada
(Concluded)

Hearings
held at

Ottawa

Vol. *THE TRUST COMPANIES ASSOCIATION OF CANADA* Date.

30 *THE TRUST COMPANIES ASSOCIATION OF CANADA* July 17, 1962



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Toronto, Ont.



ROYAL COMMISSION ON BANKING
AND FINANCE

Hearings held at Ottawa,
Ontario, on Tuesday,
July 17th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W. A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H. A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary



ROYAL COMMISSION ON BANKING

AND FINANCE

Session held at Ottawa,
Ontario, on Tuesday,
July 17th, 1962.

THE COMMISSION

The Honourable Gens Harris Porter
Chief Justice of Ontario
Toronto, Ontario

Mr. J. Gordon Hearn, B.A.
Vice-President, Bank of Montreal
Montreal, Quebec

Mr. James Douglas Gibson, O.B.E.
President, Bank of Montreal
Montreal, Quebec

Mr. Gordon L. Hearnold
Vice-President, Bank of Montreal
Montreal, Quebec

Mr. Paul M. Leman
Vice-President, Bank of Montreal
Montreal, Quebec

Mr. J. Gordon Hearn
Vice-President, Bank of Montreal
Halifax, Nova Scotia

Dr. W. A. Macdonald
Vice-President, Bank of Montreal
Halifax, Nova Scotia



Ottawa, Ontario,
Tuesday, July 17, 1962.

--- At 8.45 A.M. the hearing resumed.

THE CHAIRMAN: Call the meeting to order.

COMMISSIONER GIBSON: Mr. Chairman, yesterday before we closed we were talking about the trust companies' activities relating to deposits and the credit conditions generally, and we were just about to start on one of the other aspects of competition, which is the opening of new branches, and in this respect there are two or three questions I wanted to ask.

In the first place, I take it from the record that the opening of new branches is, on the part of some companies, an important feature in competition for guaranteed business.

Going on from that it is stated in the brief in paragraph 1.41 that:

"...economy would dictate the development, as quickly as possible, of the receipt of guaranteed funds and its investment in mortgages."

Now, the implication here is that this is where the trust companies make their money these days, and this is another question which would be helpful to us if you would give us a little more background. Could you say something about branch development and the motivations; the kind of business you try to develop to make a profit?

MR. BEAN: I think to deal with your question



--- At 2:45 A.M. the hearing resumed.

THE CHAIRMAN: Call the meeting to order.

STANLEY J. LEVY: Mr. Chairman, I have

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report to Congress, I think,

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MR. BEAN: I think to deal with your question



1 point by point, we deal with individuals primarily
2 and I think we all recognize the difficulties in
3 individuals coming to the central areas of the larger
4 cities, with parking and the rest of these problems
5 which they encounter, and as a result I think almost
6 all companies, even those who have not already opened
7 branches in the suburban areas are contemplating
8 doing so, and certainly it has been the experience
9 of others in similar types of business that they
10 have found it essential to take their wares to the
11 people rather than forcing them to come to a central
12 point, so from that standpoint I think it is a
13 natural gravitation, shall I say, from the more
14 crowded areas into the areas where they can take
15 advantage of community shopping centres, and so on.

16 I think that the point with respect to
17 the relative speed of developing business is twofold,
18 really. In the first place, it is a much quicker
19 operation; you can develop business much more quickly
20 along the lines of the guaranteed account and the
21 savings account than you can in developing estate
22 business. In a branch the estate business is naturally
23 a very slow process, and you work for years to obtain
24 appointments under wills and there is a passage of time
25 before that begins to work to your advantage and to
26 put business on your books, so that naturally when
27 opening a branch we try to do that which will give
28 you profitable business at the outset. In addition
29 to that, there is no question but that the estates
30 and trust business, for the amount of work done, is

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1 not as profitable as the guaranteed accounts. We
2 recognize that and I think that all the trust companies
3 will agree on that point. To be more precise
4 about that is almost impossible; there are so many
5 intangibles and so many elements of costs which are
6 intermixed and I do not think that any of the companies --
7 and we have all made attempts to do so -- can cost
8 the thing out to the point where we can give any
9 really sensible figures as to the relative profits
10 in guaranteed accounts and the administration of the
11 E.T. and A. as we call that.

12 COMMISSIONER GIBSON: Well, when you are
13 opening new branches do you -- you mentioned five
14 years as a reasonable period in which to arrive
15 at a profitable state; do you always think of going
16 into the regular estates and trust business in those
17 branches? Why do you not just open an office for
18 the guaranteed business in some cases if the other
19 is such a long time in coming? Would it not be
20 ultimately profitable, too?

21 MR. BEAN: Well, again it is a very
22 difficult question to answer because you cannot, as
23 I say, segregate the two in the long run. Initially
24 in many cases they are primarily service offices
25 from the standpoint of perhaps having savings funds
26 with an element of real estate, and that sort of
27 thing, in them.

28 COMMISSIONER GIBSON: Does the real estate
29 side of it pay fairly quickly?

30 MR. BEAN: Yes, it usually does.

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1 COMMISSIONER GIBSON: Well, you have
2 the three functions; you have the savings and the
3 guaranteed and the longer term stuff and the real
4 estate and the mortgage investments?

5 MR. BEAN: At the point where you can
6 have consultation, and that sort of thing, and it
7 becomes a basis for all parts of the operation and
8 although some parts may not be centered at that
9 business at the time, or even where you start out
10 essentially with what is a savings office, it
11 immediately comes to the point at which you can
12 develop the rest of your business and add other
13 elements as you go along.

14 COMMISSIONER GIBSON: There is quite a
15 diversity between trust companies in actual practice
16 in this regard; some are quite aggressive in opening
17 such offices and some, I believe the brief says, have
18 not opened any offices of this kind. Can you explain
19 why there is this difference in approach, or are
20 they all coming around?

21 MR. BEAN: I think some of us feel that
22 probably most of them will come around to it eventually.
23 As you have seen, looking at the industry as a whole,
24 you could not find a more diverse industry, really,
25 than we have; the variations between companies are
26 almost limitless and I suppose that those who have
27 done it think they are doing the right thing and
28 those who have not done it think that their policy
29 is good. There is certainly a tendency towards
30 that development, and personally I think it is a logical

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that development, and personally I think it is a logical



1 one.

2 COMMISSIONER GIBSON: Is the industry
3 becoming less diverse or more diverse?

4 MR. BEAN: Personally I would say it is
5 becoming less diverse; I think there are people
6 who were not -- for instance, at one time there
7 were a number of companies who were not in the savings
8 business who have since decided that they should
9 expand their operations in that field, and I think
10 there are other companies in order to take advantage
11 of their facilities are bringing their operations
12 into all aspects of trust business.

13 COMMISSIONER GIBSON: But from what you
14 say and what the brief says there has been quite
15 marked diversity, and presumably this represents
16 a form of specialization, does it, that some companies
17 specialize in certain aspects of the business and
18 find that this background experience makes it more
19 profitable for them to stay that way.

20 MR. BEAN: Yes, I think that is true but,
21 as I say, the tendency is towards utilization of
22 their capacities to perform most of the trust functions
23 which are available and which are normally done by
24 trust companies.

25 COMMISSIONER GIBSON: Since you have the
26 overhead you might as well ---

27 MR. BEAN: Make use of it; make use of
28 your talents and know-how in handling other steps
29 in the business which are all related.

30 COMMISSIONER GIBSON: On the other hand, if

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COMMISSIONER GIBSON: Is the industry



1 you do that you have people who are highly specialized
2 in just one or two things?

3 MR. BEAN: In one company, yes.

4 COMMISSIONER GIBSON: In one company.

5 COMMISSIONER BROWN: I would like to ask
6 a few questions about the investment policy and the
7 division of assets, particularly on the securities
8 side. There are some places where some of these
9 asset divisions are shown; page 80 of the brief,
10 paragraph 3.44.

11 What I would like to explore is the basis
12 on which the amount of cash you hold is decided
13 within the company, and also your policy on liquid
14 investments. Those are concealed in the figures
15 because presumably treasury bills are included in
16 Canada bonds, I understand, so I have to ask the question.
17 There are also some figures in the study at table 224,
18 I think it is -- it is tables 221, 222, 223 and 224,
19 and here again this is done in a rather confusing
20 method because the cash is shown as in dollar amounts,
21 the amount of cash liquid assets, which includes
22 the treasury bills, short term paper, et cetera,
23 are shown in dollar amounts, and the bond holdings
24 are shown in dollar amounts, and the bond holdings
25 are also shown in percentage amounts, but we do
26 not have a percentage amount for the cash and non-
27 liquid cash asset items.

28 I wonder if you could outline just what
29 the general policies are with respect to cash and
30 these non-cash liquid assets? I would like them

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1 discussed relative to the two items of deposits
2 and G.I.C.'s if there is a relation.

3 MR. BEAN: I think, Mr. Brown, to start
4 with that I would like to go back one step further.
5 I think yesterday at some time there was a discussion
6 on liquid assets and reference to the point made in
7 the brief which seemed to indicate that there was
8 some laxity on liquid assets, which we think there
9 is in the legislation -- in the term of how they
10 define liquid assets, for instance, in the Ontario
11 legislation. Most of the companies work on a much
12 more liquid basis than it would appear there; I
13 mean a truly liquid basis.

14 COMMISSIONER BROWN: I assume that you
15 all comply with the legislation? *the G.I.C. is?*

16 MR. BEAN: The legislation is, shall
17 I say, much too easy because they include in the
18 legislation as liquid assets almost everything of
19 a marketable nature in the way of securities. The
20 Ontario requirements require us to keep 20 per cent
21 of our deposit liabilities in liquid assets and they
22 are defined as being all forms of short term -- at
23 least, all forms of investment, including the Dominion
24 Government and the provincial government treasury
25 bonds and cash, but it does not have any relationship
26 to the term of the particular security, so that when
27 one looks at the reports of the Ontario registrar,
28 for instance, one finds that liquidity with reference
29 to deposits would be somewhere between 75 and 100
30 per cent, which is rather ridiculous. Most of this,



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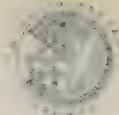


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2 securities which are not in any sense of the word
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5 they are truly liquid.

6 I think as a group -- and it is difficult
7 to generalize on this -- but it is evident from the
8 figures that they keep -- the figures you have in
9 the study there -- that they keep somewhere between
10 three and five per cent, usually closer to five per
11 cent, I should think, of their deposit liabilities
12 in cash.

13 COMMISSIONER BROWN: I would like to clarify
14 one other point; in deposit liabilities you are
15 including generally at this time the G.I.C.'s?

16 MR. BEAN: Not including the G.I.C.'s
17 for the minute. It is all in terms of the deposit
18 liabilities as including chequable and non-chequable
19 accounts and based upon experience and the test of
20 time, these have been found to be a reasonable pro-
21 portion to keep to meet any demands there might
22 be against those accounts because, as people in the
23 savings business know, there are very few radical
24 changes in the savings business and one must keep
25 only enough cash on hand to meet the immediate re-
26 quirements. That applies to the liquid assets and
27 to the trusts, I would think, and again even on the
28 study figures -- and admittedly you cannot tell from
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MR. BEAN: Not including the G.I.C.'s for the minute. It is all in terms of the deposit liabilities as including checkable and non-checkable accounts and based upon experience and the test of time, these have been found to be a reasonable proportion to keep to meet any demands there might be against those accounts because, as people in the savings business know, there are very few radical changes in the savings business and one must keep only enough cash on hand to meet the immediate requirements. That applies to the liquid assets and to the trusts, I would think, and again even on the study figures -- and admittedly you cannot tell from the brief figures -- precisely what proportions are



1 kept in more liquid assets, that is, treasury bills,
2 securities, having a term of, say, not greater than
3 three to five years, and I would think from our own
4 experience and from discussing other companies this
5 is something between 20 and 25 per cent in securities
6 of that type, including your cash.

7 COMMISSIONER BROWN: Is this related to
8 your total responsibility including the G.I.C.'s at
9 all, or are they considered separately?

10 MR. BEAN: Well, in actual fact I do not
11 think most companies where they operate both a
12 substantial savings business and a related investment
13 business -- and there are some companies, as you know,
14 who do not operate a savings business -- but where
15 they operate both and where there is a reasonable
16 proportion between the two, that those requirements
17 are sufficient to look after your liquidity and the
18 liquidity in the G.I.C. account as well, and since
19 this has changed relatively little on the down side,
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1 COMMISSIONER BROWN: In other words, I
2 gather it is very difficult to give us a picture on
3 what this range might be. On page 80 it is shown on
4 a percentage basis of company and guaranteed account
5 and the cash is only 3.2 per cent, but if you relate
6 that cash to deposits ---

7 MR. BEAN: It would run between 8 and 10 per
8 cent.

9 COMMISSIONER BROWN: Yes.

10 MR. BEAN: That is right. That shows a little
11 more clearly, I think, in the one chart in the Study.

12 COMMISSIONER BROWN: Page 260 of the Study
13 shows some more cash relationships.

14 MR. BEAN: It runs out at around 8 per cent
15 and it gets up as high as 10 per cent and on occasion
16 as low as 5 per cent.

17 COMMISSIONER BROWN: And this also does show
18 the liquid asset ratio too which runs as high as 22 per
19 cent and 18 per cent.

20 MR. BEAN: Yes.

21 COMMISSIONER BROWN: Within these legal
22 considerations which vary from province to province,
23 both on the liquidity ratio required and on the
24 percentage of total which must be in trustee securities,
25 I wonder if you could explain to us how these are kept?
26 Are they kept separately province by province or is
27 there a certain amount of fluidity between the provinces
28 -- the assets between the provinces? Can you compensate
29 for those in one province by holding different
30 securities in another province?



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1 MR. BEAN: Perhaps Mr. Hodgson could answer
2 that better because they have the immediate problem of
3 operating in all provinces.

4 MR. HODGSON: In our particular case there
5 is no consistency in this operation. We have considered
6 the possibility of operating an investment portfolio
7 for each provincial jurisdiction representing the
8 assets for the liabilities that may have been taken in
9 that province. However, in practice we do not do this.

10 It is much more efficient, we think, to
11 operate a central portfolio of assets and we strive,
12 generally speaking to conform to the most restrictive
13 legislation of any of the provinces. What this means
14 is that at any given time if we were to actually sort
15 out the portfolio to represent the deposit liabilities
16 of each province that this would more than satisfy
17 the most restrictive of regulations.

18 Some provinces require that securities be
19 maintained in the province under the jurisdiction of
20 the provincial courts for the trust which has been
21 established in this taking of the deposits. In those
22 instances, of course, the securities are maintained
23 there in that province. Even when this is not required,
24 many times securities which are purchased in a province
25 remain in that province, in our office there. Sometimes,
26 however, securities are purchased and are brought into
27 head office where they are kept.

28 There again, we have no fixed rule, and the
29 legislation in the various provinces is not consistent,
30 For example, Mr. Bean just mentioned that the liquidity

For example, Mr. Bean just mentioned that the liquidity legislation in the various provinces is not consistent. There again, we have no fixed rule, and the head office where they are kept. However, securities are purchased and are brought into remain in that province, in our office there. Sometimes many times securities which are purchased in a province there in that province. Even when this is not required, instances, of course, the securities are maintained established in this taking of the deposits. In those the provincial counts for the trust which has been maintained in the province under the jurisdiction of some provinces require that securities be the most restrictive of regulations. of each province that this would more than satisfy out the portfolio to represent the deposit liabilities is that at any given time if we were to actually sort legislation of any of the provinces. What this means generally speaking to conform to the most restrictive operate a central portfolio of assets and we strive, It is much more efficient, we think, to that province. However, in practice we do not do this. assets for the liabilities that may have been taken in for each provincial jurisdiction representing the the possibility of operating an investment portfolio is no consistency in this operation. We have considered MR. HODGSON: In our particular case there operating in all provinces. that better because they have the immediate problem of MR. BEAN: Perhaps Mr. Hodgson could answer



1 reserves in Ontario is 20 per cent, and liquid assets
2 are defined as Government of Canada bonds and provincial
3 bonds. In British Columbia the liquidity reserve
4 for demand deposits is 25 per cent in either cash or
5 government bonds. Provincial bonds are not included.
6 So, there is this difference in regulation, and if you
7 are operating nationally, then, as we do, we have the
8 25 per cent liquidity reserve minimum as defined by
9 the British Columbia Act. As a matter of fact, it is
10 in excess of that.

11 That, generally, gives you an answer to
12 the question which you put.

13 COMMISSIONER GIBSON: When you talk of 25
14 per cent liquidity, you are talking about the ratio
15 of these liquid assets, as defined, to deposits?

16 MR. HODGSON: Yes.

17 COMMISSIONER GIBSON: Not the G.I.C.'s.

18 MR. HODGSON: And they are not liquid assets
19 as we define them as day to day loans and treasury bills.
20 It is 25 per cent of your demand deposits liabilities
21 in cash or Government of Canada bonds -- no mention
22 of maturity.

23 COMMISSIONER GIBSON: You don't break that out
24 into term?

25 MR. HODGSON: In the legislation this is not
26 mentioned at all.

27 COMMISSIONER BROWN: But, in fact, you keep
28 about 8 or 10 per cent of this in cash?

29 MR. HODGSON: Non-cash liquid assets. It
30 depends, again, on the type of deposit liabilities, I



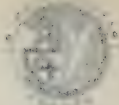
1 reserves in Ontario is 50 per cent, and liquid assets
2 are defined as Government of Canada bonds and provincial
3 bonds. In British Columbia the liquidity reserve
4 for demand deposits is 25 per cent in either cash or
5 Government bonds. Provincial bonds are not included.
6 So, there is this difference in regulation, and if you
7 are operating nationally, then, as we do, we have the
8 25 per cent liquidity reserve minimum as defined by
9 the British Columbia Act. As a matter of fact, it is
10 in excess of that.
11 That, generally, gives you an answer to
12 the question which you put.
13 COMMISSIONER GIBSON: When you talk of 25
14 per cent liquidity, you are talking about the ratio
15 of these liquid assets, as defined, to deposits?
16 MR. HODGSON: Yes.
17 COMMISSIONER GIBSON: Not the G.I.C.'s.
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1 would presume. Mr. Bean says, if some deposit -- there
2 may be some variation in deposit liabilities, although
3 not much, I would think, as far as the actual deposit
4 accounts are concerned. However, in our company
5 again we require and need the liquid reserves for the
6 short-term guaranteed investment certificates of the
7 non-individual type, and this will automatically require
8 us out of just investment prudence and experience to
9 maintain a higher level of non-cash liquid assets
10 to handle repayments of these if at any given time new
11 replacing deposits -- or, these deposits were not
12 renewed.

13 COMMISSIONER BROWN: On this matter of
14 provincial legislation do you have any comments on whether
15 you consider some provinces too easy in their requirements
16 and therefore provide some competition within that
17 province that is difficult to match?

18 MR. HODGSON: I think what we have said in the
19 brief and perhaps could be re-stated is that we would
20 like to see a consistency of legislation, and we would
21 like to see this legislation on the basis of the
22 most restrictive that is now in place. In other words --
23 and perhaps it should not be said on the basis of the
24 most restrictive, but Ontario has done the most work
25 on this kind of legislation and it probably is the best
26 act at this particular time in covering most of the
27 points. There can certainly be a great number of
28 improvements. The definition of this liquidity position
29 is one. However, as far as making a comment about other
30 provinces having restrictions is concerned, I think the



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1 position our company would take would be that we
2 regret some provinces do not have up-to-date definitive
3 legislation along the lines of the other more complete
4 types such as the Ontario Act.

5 COMMISSIONER BROWN: You mention you would
6 like to have uniformity along the lines of the most
7 restrictive: I gathered from paragraph 17 on page 6
8 that you would like to have uniformity along the lines
9 of the most liberal?

10 MR. HODGSON: Well, I suppose we would like to
11 have liberal investment restrictions but we believe
12 for the safety of the public and for our own industry
13 we are quite content to have good regulation and
14 inspection and this kind of thing, which we now have,
15 and in some provinces it is better than others. When
16 I say "better" I mean more of it is done.

17 COMMISSIONER BROWN I would like to explore
18 this a little bit because the reaction, naturally, is
19 that if you ask, as the brief does, for uniformity of
20 legislation along the lines of the most liberal, then
21 why have any regulation at all. However, your attitude
22 is apparently not quite at least my interpretation of
23 the brief, and you feel operating within the most
24 restrictive is not too confining and you would be quite
25 happy if you were all on that basis provided the
26 enforcement was on the same level; is that correct?

27 MR. HODGSON: I don't think, perhaps, we
28 are communicating -- Mr. Bean will have something to
29 say on this, but before I pass it to him, investment
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2 industry of regulation, and the best regulation and
3 supervision presumably might be the most consistent,
4 and regular visits with an adequate staff of people
5 taking a look at what the operations are. That is the
6 difference of opinion, I suppose, in the two sections.

7 COMMISSIONER BROWN: Well then, would you
8 like to see a closer definition of "liquidity" in the
9 sense of requiring a percentage in cash and the percentage
10 in liquid assets, and the definition of "liquid assets"
11 as being something that is immediately realizeable?

12 MR. HODGSON: For demand deposits?

13 COMMISSIONER BROWN: Demand deposits.

14 MR. HODGSON: Yes, I think probably it should
15 be.

16 COMMISSIONER BROWN: Rather than this vague
17 definition of any government bond falling into that
18 category?

19 MR. HODGSON: It would be a difficult one to
20 decide whether it should be 5, 6, 8. As we talked
21 yesterday -- why is 6 good? However, I think even
22 without the regulation each of the companies, based on
23 its own experience, is doing this at this particular
24 time and has been doing it for a long time.

25 COMMISSIONER BROWN: But if somebody wished
26 to operate in some province on a lower standard than
27 those of your Association, they could do so within the
28 legal limitations as they exist, and therefore the
29 point comes up whether there should be a higher require-
30 ment in terms of cash and immediately liquid assets?



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COMMISSIONER BROWN: But if somebody wished to operate in some province on a lower standard than those of your Association, they could do so within the legal limitations as they exist, and therefore the point comes up whether there should be a higher requirement in terms of cash and immediately liquid assets?



1 MR. BEAN: I think that is right, Mr. Brown.
2 I think our feeling generally is that while we would
3 like to have the wider range of investments available
4 to us -- in other words, the range of investments in
5 the most liberal of the acts governing companies
6 across Canada -- nevertheless, we do feel the portions
7 having to do with the more definite specifications of
8 liquidity than exist in any of the acts at the moment,
9 I think, would be beneficial because there is always
10 a possibility now, and there have been additional
11 trust companies formed in the course of the last two or
12 three years. Whether or not they are going to be
13 operated on the same standards as the industry has set
14 for itself is difficult to say, and I think it would be
15 a protective feature and a wise precaution, really, if
16 the provincial legislation governing this would be a
17 little more precise as to the definition of "liquidity".
18 I don't think a 30-year Government of Canada bond is a
19 very liquid asset.

20 COMMISSIONER MACKINTOSH: May I interject a
21 question there: In a province where the legislative
22 requirements are fairly slack do the small companies,
23 operating only within that province, take advantage of
24 their extra leeway over the nationally operating company
25 who conform to the most restrictive legislation? Is
26 that to any degree a problem?

27 MR. FORTIN: Maybe the answer is that we don't
28 know. We suspect they might; because there is no
29 published information in many provinces.

30 COMMISSIONER LEMAN: And the Association does



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COMMISSIONER LEWIS: And the Association does



1 nothing to check on its members?

2 MR. FORTIN: But they are not members.

3 COMMISSIONER LEMAN: Those ones Dr. Mackintosh
4 is referring to are not members?

5 MR. FORTIN: Some may be, but generally no.

6 COMMISSIONER BROWN: There is no requirement
7 of a publication of their balance sheet?

8 MR. FORTIN: To their shareholders, but there
9 is no published information by government -- by
10 provincial departments.

11 MR. HODGSON: There are balance sheets, but
12 I think probably what should be added is that in Ontario,
13 Alberta and Quebec trust companies operating in those
14 provinces are required to provide extreme detail of
15 their operations, not only balance sheet items but operating
16 statements; all their expenses are itemized and shown;
17 the sources of their income; the portfolios of the
18 company account, and the guaranteed account broken down
19 into the classes of securities held. This is done
20 yearly to these provinces and this information is
21 published and is available to the public. So that
22 in this particular industry, to trust companies operating
23 in these provinces, a complete disclosure of the
24 entire operation is available to all companies, and
25 their assets and their liabilities.

26 COMMISSIONER BROWN: Coming along from Dr.
27 Mackintosh's question, this is not true in all provinces.

28 MR. FORTIN: That is correct.
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1 MR. FORTIN: I think so far, Mr. Brown, as
2 far as I know over the years there is a report of
3 trust companies for the province of Quebec, there
4 is one for Ontario and there is a Dominion report,
5 and that is all.

6 COMMISSIONER BROWN: You do not mention
7 it in the brief, but would you be in favour of having
8 this a requirement in all provinces?

9 MR. FORTIN: I think if there was a success-
10 ful uniform legislation it would follow naturally that
11 there would be reporting and a public disclosure of
12 the facts of the companies operating in Canada, because
13 each province would have the same requirement as to
14 reporting. For example, in Ontario on the liquidity
15 question the companies have to report twice a year.
16 At the end of June, at the end of December they have
17 to give a statement on their deposit liabilities --
18 deposits, not G.I.R.'s, -- cash, government bonds
19 and provincial bonds and in Ontario liquidity includes
20 the securities of certain Canadian municipalities.
21 They are part of the Ontario liquidity provision.
22 If you had that uniformity of legislation and each
23 province actually did make that legislation effective,
24 then you would have complete information over all
25 trust companies doing business in any province of Canada.
26 COMMISSIONER BROWN: I think this is obvious,
27 but you have got to deal with what is practical and
28 what are the more important parts of this uniformity
29 if you cannot get complete uniformity.
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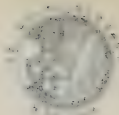


1 MR. BEAN: At the present time without
2 naming any names -- I think that would be unfortunate
3 and I hesitate to do so and say what provinces are
4 involved on this question of operating in one province
5 and doing things which would not be satisfactory in
6 another -- I have reason to believe that a trust
7 company has been refused permission to operate in
8 the province of Ontario but is operating in at
9 least two other provinces because they cannot meet
10 the standards which are set by the province of Ontario.
11 So we do feel that there is a desirability, shall I
12 say, in all provinces meeting at least the standards
13 of Ontario with respect to their method of operation
14 and their liquidity et cetera.

15 COMMISSIONER GIBSON: Does not this kind
16 of thing, minimum standards, rather work against your
17 desire to have more investment power?

18 MR. BEAN: I do not think it is really
19 the liberalization of the investment power proper
20 which is the issue; it is more a question of keeping
21 a good solid basis from the standpoint of liquidity
22 and that type of thing. Beyond that point we
23 suggest that the broader investment powers are not
24 such as to enable any company to get into real trouble
25 because most of these companies aside from the liquidity
26 will work towards mortgages.

27 COMMISSIONER BROWN: In bond portfolios
28 there is a trend which appears to show up in an
29 increasing percentage in corporates -- corporate
30 bonds. Would you care to comment on this?



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1 MR. BEAN: Mr. Brown is asking about an
2 increased proportion or an apparent tendency towards
3 an increase in the proportion of corporation securities
4 as against government securities in the portfolios
5 of the companies. I think that is just really the
6 marketplace working and the more attractive opportunities
7 there have been in the last five years to invest
8 in corporate securities rather than government
9 securities. I do not think it is anything more than
10 that.

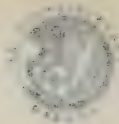
11 MR. HODGSON: With perhaps one addition.
12 It probably does include the shorter term evidences
13 of indebtedness of corporations, sometimes called
14 commercial paper, where a corporation will issue a
15 security for a period of under one year. This has
16 grown very considerably over the last ten years
17 and in our own company's case we have acquired these
18 evidences of indebtedness. There is a wide range,
19 as no doubt you know, of top grade companies issuing
20 these obligations for very short periods, sometimes
21 repayable on demand. I think this is a very broad
22 subject, this commercial paper, and the banking situation.

23 COMMISSIONER BROWN: I think you have
24 answered my question. They are not just long term
25 corporate bonds?

26 MR. HODGSON: No -- grain companies' paper
27 et cetera.

28 COMMISSIONER BROWN: That is all I have.

29 COMMISSIONER LEMAN: In this business of
30 moving corporate paper do you see any relationship --



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COMMISSIONER LEWIS: In this business of

moving corporate paper do you see any relationship --



1 there are relations established between the trust
2 companies and various corporations as to a sort of
3 reciprocal business on a reciprocal business basis.

4 Is there any relation between the corporate paper
5 you can acquire and the business you do with these
6 corporations in the way of services like transfer
7 agencies and corporate trusteeship, et cetera?

8 MR. HODGSON: I would say that 99 out
9 of 100 purchases that are made -- probably the
10 percentage is higher than that -- are made through
11 an investment dealer. These obligations are publicly
12 offered to all and sundry. I will not say cases never
13 existed but it would be an extremely rare case for
14 an obligation to be purchased directly from a
15 corporation.

16 COMMISSIONER LEMAN: But you exercise
17 your own judgment on the value of the paper. The
18 investment dealers told us there was an area of
19 worry on their part about the danger that commercial
20 paper would not be screened well enough by them. I
21 think they expressed a little worry on that score.

22 MR. HODGSON: I know our company and
23 some of the other companies have discussed this matter
24 with dealers and this paper is bought by people who
25 do not require the safeguards and the investigation
26 that a more professional investor would pursue. The
27 investment dealer is acting as an agent in this respect
28 and presumably all the investment dealers do not do
29 all the work that all the other ones do so that in
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1 ensure that all the circumstances on the obligations
2 are correct and adequate and some might not. I think,
3 as I understand it at least, that is the problem there.

4 COMMISSIONER LEMAN: If I may return for
5 just a minute to the question of liquidity reserves,
6 we have heard from some institutions that they did
7 not have much compunction about borrowing their liquidity
8 reserves from the bank. Does the legislation affecting
9 trust companies permit this?

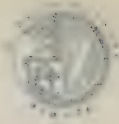
10 MR. BEAN: The non-borrowing legislation,
11 Mr. Lemman, which you obviously refer to in a way
12 refers to borrowing from the public; in other words,
13 the trust companies are not allowed by law, I think
14 in almost all provinces, to borrow by way of debentures
15 or otherwise from the public. But there is no
16 restriction with respect to borrowing in the ordinary
17 course of its business from a commercial bank or
18 chartered bank in its company account.

19 COMMISSIONER LEMAN: But specifically what
20 I meant is do you know if some trust companies have
21 at times borrowed their liquidity reserves, in other
22 words, they have met the liquidity requirements through
23 borrowing from the banks?

24 MR. BEAN: I think on occasion certainly
25 trust companies have replaced their cash position
26 through loans from the bank, that is right.

27 MR. PEMBROKE: May I ask if you mean
28 guaranteed funds or company funds?

29 COMMISSIONER LEMAN: Well, I asked the
30 question in a general way -- wherever there is a liquidity



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MR. PATTERSON: May I ask if you mean

guaranteed funds or company funds?

COMMISSIONER LEMAN: Well, I asked the

question in a general way -- wherever there is a liquidity



1 requirement.

2 MR. PEMBROKE: That would be guaranteed
3 funds.

4 MR. BEAN: I think really if you must
5 separate the two of them from the standpoint of cash
6 requirements and where there is a cash requirement
7 in guaranteed account it may well be met from company
8 account and through loans borrowed in the company
9 account. I think the point Mr. Pembroke wanted
10 to make was you cannot borrow against your guaranteed
11 account but there is nothing to prevent you borrowing
12 money through a company account and putting the
13 cash in the guaranteed account. There is a certain
14 amount of what we call allocation of assets which is
15 literally the sale out of this collective trust account
16 to the public and in that way you can always put your
17 guaranteed account in cash. Any loans there are
18 would be taken out of company account and the companies
19 do sometimes borrow substantial amounts from the
20 chartered banks.

21 MR. HODGSON: This would not be frequent,
22 I do not think.

23 COMMISSIONER LEMAN: Would the company
24 feel a very strong urge then to get out of debt to
25 cover their liquidity reserve?

26 MR. BEAN: I think in most cases they do.
27 On some occasions it has lasted over a period of time.
28 Most companies are reluctant to have it appear in their
29 statements from time to time that they have bank
30 loans. I would suggest that in most cases they would



MR. TEMPLETON: That would be guaranteed

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1 be for a very temporary period.

2 COMMISSIONER LEMAN: Do most of them carry
3 formal lines of credit from banks?

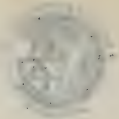
4 MR. BEAN: I would think so. I know we
5 do.

6 MR. HODGSON: I think we mention that.

7 MR. BEAN: I think almost all companies do.

8 COMMISSIONER LEMAN: We talked about
9 commercial paper. There has been expressed the
10 thought that at the appropriate time there might
11 be a development of bankers' acceptance business
12 in Canada and the banks have done quite a bit of
13 work on this. Would you consider yourself a good
14 market for these when they are established?

15 MR. HODGSON: On occasion, yes I think so.
16 Making a personal opinion, I think many of the
17 purchasers of the so-called commercial paper in the
18 past have acquired this paper largely on the basis
19 that repayment at maturity date would be made by the
20 bank. There is obviously no flow of funds for the
21 repayment of this debt and most of the companies
22 schedule for the actual dates that the paper has
23 been dated for, and I think the advent of the banker
24 acceptances is a desirable thing. I feel that in
25 many instances perhaps the corporation borrower through
26 these short term obligations has been enjoying a
27 very definite advantage. His ability to issue and
28 sell these securities has been largely determined by
29 his bank line of credit and banks have been required
30 or have done this with no recompense to themselves.



THE FIRST NATIONAL BANK

COMMERCIAL BANK: Do most of them carry

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Mr. [Name] [Address]

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schedule for the actual dates that the paper has

been dated for, and I think the dates of the paper

are usually a few days in advance of the actual

many instances because the corporation has not enough

these short term obligations has been required to

very short period. It is not always so, however, and

sell these securities are often largely dependent on

the time when the corporation has been required to

to pay out the money for the purpose of the



1 Now, if the bankers' acceptance comes
2 along it will be a little bit more costly for the
3 commercial company to borrow in this fashion, so
4 that there is a possibility that as now probably
5 more frequently the banker acceptance will be less
6 and less a profitable medium for investment. Some-
7 times it will be but sometimes it will not. So
8 it will not be a continuing constant, always available
9 competent investment medium, I do not think.

10 COMMISSIONER BROWN: Could I ask one
11 question which leads from a question of Mr. Leman's?
12 If a company does borrow from the bank to meet its
13 liquidity ratio, does that liability to the bank
14 become included in the moneys deposited for the
15 liquidity requirement?

16 MR. HODGSON: I cannot speak to that, Mr.
17 Brown, because in my experience we have never borrowed
18 from the bank.

19 MR. FORTIN: I think the answer, Mr. Brown,
20 is that the liabilities of the company including
21 moneys received on deposit is the total liability
22 from which you deduct the cash on hand in arriving
23 at your liquidity requirements; in other words, if
24 you borrow and still have the cash, borrowing does
25 not make any difference. The liquidity ratio is
26 20 per cent of your liabilities and issued debt
27 plus the amount received on deposit less the cash
28 you have on hand. In the Dominion ratio I think
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30 debt. The result is slightly different but you do



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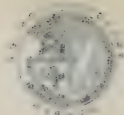
1 have the cash.

2 COMMISSIONER BROWN: This changes the whole
3 calculation. In all this discussion cash is deducted
4 from deposits.

5 MR. FORTIN: That is for the limits of
6 borrowing.

7 MR. HODGSON: This is company account.

8 MR. BEAN: We are confusing two different
9 things. I think Mr. Fortin is talking primarily
10 about the relationship between capital reserves and
11 total deposit liabilities. That is the case there.
12 In the province of Ontario, which is the only one I
13 can speak of with any knowledge, in calculating your
14 cash liquidity you may and do take into account both
15 those assets available in the guaranteed account,
16 that is, liquid assets there, and also in company
17 account and from your cash you deduct any bank loan
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1 It goes automatically off your cash. It is treated as
2 cash overdraft.

3 COMMISSIONER BROWN: This clarifies the
4 picture a little bit, does it not? In other words,
5 for the purposes of that calculation it does not avail
6 you to borrow at all?

7 MR. BEAN: It put you in a position that you
8 can meet obligations from a much different standpoint,
9 and when you have the in-cash required you may do so,
10 but from your standpoint of over-all liquidity it does
11 not help you one iota because it is taken off your
12 cash on hand.

13 MR. HODGSON: The actual mechanics that would
14 probably take place would be the sale of bonds out
15 of the guaranteed account which guaranteed the company
16 account.

17 MR. BEAN: That is right.

18 MR. HODGSON: This is a substitution of
19 assets.

20 COMMISSIONER LEMAN: If I understood you
21 properly a little earlier, even in Ontario the liquidity
22 ratio base is not a proper liquidity ratio base.

23 MR. BEAN: Speaking personally again, and
24 I think I speak for a number of the companies, we
25 certainly feel that it would be desirable and preferable
26 to have a more precise definition of liquidity than
27 that which exists in the Ontario Act.

28 COMMISSIONER LEMAN: Even in the Ontario Act?

29 MR. BEAN: Even in the Ontario Act.

30 COMMISSIONER LEMAN: Therefore is it fair to



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1 assume that from the legal requirement standpoint,
2 this business of the way it is calculated in view of
3 what the assets are and what can be thrown into the
4 liquid section has not been a problem?

5 MR. BEAN: No. As I suggested, in actual
6 practice over the last few years some companies on
7 the Ontario standards have been 75, 85 or 90 per cent
8 liquid.

9 COMMISSIONER GIBSON: Yes, and yet this does
10 not obviously make you very happy, because it does not
11 make you all happy. You say in the tenth item of
12 the brief that the problems involved in attracting and
13 managing savings have multiplied of late owing to the
14 trend in the mortgage market towards long-term obligations,
15 so that a substantial proportion of investments are
16 now made long-term despite the predominantly short-term
17 nature of trust company liabilities. Basically you
18 are here talking about a real problem of liquidity,
19 are you not?

20 MR. HODGSON: Well, a potential problem.

21 COMMISSIONER GIBSON: Yes, and when you talk
22 about 70 and 80 per cent liquidity, this is not very
23 meaningful, I take it?

24 MR. BEAN: I would suggest, Mr. Gibson, as
25 I suggested at the start that in terms of what we
26 would think would be true liquidity, the ratio is much
27 lower than the one you suggest because of the broad
28 definition in the Ontario Act.

29 COMMISSIONER GIBSON: Well, is there any way
30 we can get this sorted out so we can see the picture

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1 more clearly? We do have some figures here in respect
2 to cash in relation to the chequing deposits, but we
3 do not have a clear picture of liquidity in relation
4 to the G.I.C. business. Mr. Hodgson has said that
5 he will match some of these big transactions but he
6 obviously does not match them all, and you have a
7 lot of small transactions. Is it possible to see this
8 unified picture?

9 MR. PEMBROEK: Mr. Chairman, may I make a
10 comment in this regard?

11 There is a tremendous diversity of practice
12 among trust companies, as I see it, in the handling
13 of their investments for this guaranteed account.
14 That has perhaps partly accounted for the differences
15 between the companies. That in addition runs the
16 issue of guaranteed investment receipts, and at the
17 same time issues of these chequing accounts, and
18 the company that does not.

19 Incidentally, I might say here, it is because of the
20 very fact that one of the very large companies in the
21 guaranteed investment receipt business is not in the
22 chequing business, the inclusion of the figures
23 of that company distorts any type of chart that you
24 work out that covers the whole field of guaranteed
25 investment accounts.

26 When you talk about liquidity I suggest
27 that the requirements in the two segments of the guaranteed
28 account are in fact quite different. For example, the
29 company that has a substantial amount of deposits
30 obviously would itself decide that it had to have a



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that the requirements in the two segments of the guaranteed
company that has a substantial amount of deposits
obviously would itself decide that it had to have a



1 very substantial liquidity figure in order to cover
2 those deposits. But, the company that sold only
3 guaranteed investment receipts, and only a small
4 portion of those sales were represented by demand
5 receipts would not feel it necessary to have such a
6 very high degree of liquidity. That, I might say, is
7 theory. In practice the company I referred to that
8 does a very substantial business in guaranteed
9 investment receipts has in fact a liquid ratio at all
10 times very substantially more than any figure I have
11 heard mentioned here so far.

12 COMMISSIONER BROWN: Shall we suggest that
13 you should not be quite so modest in referring to the
14 company?

15 MR. PEMBROKE: I do not wish, Mr. Commissioner,
16 to be accused of special pleading, because I certainly
17 associate myself with the rest of the industry in
18 these discussions.

19 I would like to suggest in answer to the
20 question by one of the Commissioners -- I am sorry,
21 I do not remember whether it was Mr. Leman or yourself --

22 COMMISSIONER LEMAN: It does not matter, they
23 are all official questions.

24 MR. PEMBROKE: Somebody asked the question
25 as to what alteration or what differences we would
26 like made in the existing legislation with respect
27 to this question of liquidity. I would like to suggest
28 that the Commission might give consideration to
29 suggesting in a general way that the authorities
30 differentiate between these two segments, for the



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suggesting in a general way that the authorities



1 reason, as I say, the companies themselves would
2 recognize the necessity for greater liquidity where
3 they have a greater amount of money callable on demand
4 as opposed to liquidity necessary for term deposits.
5 I believe that if we were able to get uniform legislation
6 throughout the provinces, legislation so far as it
7 deals with liquidity might very well deal with those
8 two segments separately and probably, I think,
9 advantageously require that the liquidity ratio in
10 respect of guaranteed investment receipts be geared
11 very closely to the amount of those receipts that
12 are payable on demand.

13 COMMISSIONER BROWN: Or within what period?

14 MR. PEMBROKE: Or within 30 days. I would say,
15 for instance, if you have a very substantial amount
16 of receipts issued that are, what shall I say, payable
17 in 90 days then part of your liquidity should consist
18 of items that have a maturity not exceeding 90 days.
19 I do not say that the whole thing need be matched
20 but, for example, there is a statement made here that
21 guaranteed investment funds are a very substantial
22 outlet for mortgages. That is definitely not so in
23 my own case. I would consider guaranteed funds a
24 stable vehicle for mortgages in respect of monies that
25 I am going to keep for five years. Very relatively
26 I do a matching job. I take mortgages that are due
27 in five years and match them, as it were, against
28 contracts that are issued for five years, but I do
29 not in respect of my own company agree with loading
30 guaranteed accounts with a great deal of mortgages,

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my own case. I would consider guaranteed funds a stable vehicle for mortgages in respect of monies that I am going to keep for five years. Very relatively I do a matching job. I take mortgages that are due in five years and match them, as it were, against contracts that are issued for five years, but I do not in respect of my own company agree with loading guaranteed accounts with a great deal of mortgages.



1 irrespective of the maturity requirement of the
2 corresponding guaranteed investment receipts.

3 COMMISSIONER BROWN: This does bring up a
4 question in respect of which we slipped. At least,
5 I omitted to ask it, and that was, to what extent is
6 matching of maturities made an objective of these
7 guaranteed investment certificates?

8 MR. PEMBROKE: It is not, in so far as I
9 am concerned, too significant an operation. It
10 could not be for a whole lot of reasons. One of them,
11 for example, is that I have a very substantial amount
12 of, let us say, demands. Now, that sounds like
13 "demand" period, meaning that they can be taken --
14 they obviously can be taken away fromme at any point
15 of time. In point of fact, I find that a very substantial
16 part of that demand rolls over. In other words, month
17 after month after month it still stays on demand.
18 It is hard to understand quite why, but the fact is
19 that it does. A certain number of people like the
20 liquidity and, for various reasons, they do not put
21 that money in banks and they will not put it in
22 treasury bills. Sometimes they preclude it from being
23 so used, so they leave it on demand and it might stay
24 with me on demand for, let us say, six or eight months.
25 Well, obviously when I am considering my liquidity
26 I have got to think of that, and I hold in the back
27 of my mind the secure knowledge that a certain proportion
28 of that demand will not in fact be called upon
29 immediately. In other words, it won't be called on
30 to the extent of 100 per cent.



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1 THE CHAIRMAN: Not only that, but you have
2 got funds coming in and not being withdrawn, so that
3 the net position is the important position.

4 MR. PEMBROKE: Yes, sir, and I rely on that.
5 It cannot be relied on too much, of course.

6 THE CHAIRMAN: That is right, but it is
7 a big factor?

8 MR. PEMBROKE: Yes.

9 COMMISSIONER GIBSON: Our problem is, how
10 do you see this picture, you see. What you say sounds
11 eminently sensible and is a rational pattern, but
12 we look at the statistics and they do not quite come
13 out that way because of these differences as between
14 companies, I presume, and so on.

15 MR. FARIBAULT: I would say so far as we
16 are concerned we follow the practice of the Royal Trust.
17 I would say that as far as mortgages are concerned
18 our board never authorizes us to go over a certain
19 per cent, and they have never reached 16 per cent.
20 The average maturity of our mortgage is $3\frac{1}{2}$ years.

21 COMMISSIONER GIBSON: Well, the General Trust
22 and the Royal Trust in this sentence I think represent
23 the trend in the mortgage market, and I refer to that
24 portion which states that owing to the trend in the mortgage
25 market towards long-term obligations, so that a
26 substantial proportion of investments are now made
27 long-term despite the predominantly short-term
28 nature of trust company liabilities. Is this not a
29 major concern?

30 MR. BEAN: I think, Mr. Gibson, that the two



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THE CHAIRMAN: What is your view on
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MR. BRAN: I think, Mr. Gibson, that the two



1 companies mentioned are at one end of the spectrum,
2 as it were, and at the opposite end of that spectrum
3 you have the company whose policy is in a directly
4 reverse position to that which does and has over a
5 great many years, investing almost entirely in mortgages
6 as far as its guaranteed investment certificate monies
7 are concerned, because those monies are of a long-term
8 nature relative to the type of business of which
9 Mr. Pembroke spoke. There is the large portion of
10 a demand business on a nine months and a six months
11 basis, and so on. These were, as we mentioned yesterday,
12 the predominant retail business of G.I.C., and are
13 in the area of three to five-year terms.

14 THE CHAIRMAN: In view of that the liquidity
15 requirement would be quite different for each of these
16 companies?

17 MR. BEAN: They are entirely different, and
18 that is why it is difficult.

19 THE CHAIRMAN: It is difficult to have a
20 general provision by statute or otherwise as to limits
21 which tie you down to certain liquidity requirements.

22 MR. BEAN: Yes, and it is one of the things
23 that complicates the industry. We have said so many
24 times, that companies all in the same business are
25 so varied that it is very difficult to apply a set of
26 rules which will cover all situations in all companies.

27 COMMISSIONER BROWN: I have now had further
28 opportunity to look at this chart No. 235 which I
29 could not find earlier in the Study. It seems to be
30 in a different place than at that point where it was



...and at the opposite end of that spectrum

you have the company whose policy is in a directly

reverse position to that which does and has over a

great many years, investing almost entirely in mortgages

...as far as its investment certificate notes

are concerned, because those monies are of a long-term

nature relative to the type of business of which

Mr. Pembroke spoke. There is the large portion of

a demand business on a nine months and a six months

basis, and so on. These were, as we mentioned yesterday,

the predominant retail business of G.I.C., and are

in the area of three to five-year terms.

THE CHAIRMAN: In view of that the liquidity

requirement would be quite different for each of these

companies?

MR. BRAN: They are entirely different, and

that is why it is difficult.

THE CHAIRMAN: It is difficult to have a

general provision by statute or otherwise as to limits

which tie you down to certain liquidity requirements.

MR. BRAN: Yes, and it is one of the things

that complicates the industry. We have said so many

times, that companies all in the same business are

so varied that it is very difficult to apply a set of

rules which will cover all situations in all companies.

COMMISSIONER BROWN: I have now had further

opportunities to look at this chart No. 255 which I

could not find earlier in the study. It seems to be

in a different class than at that point where it was



1 being discussed.

2 The first half of it covers 15 companies and
3 the last part just covers 7. I refer to Table 235
4 following page 260 in the Study. There is a very
5 apparent seasonable variation in the cash ratio
6 coinciding with the fourth quarter.

7 COMMISSIONER MACKINTOSH: How many companies
8 have the calendar year as the fiscal year?

9 COMMISSIONER BROWN: I was leaving that
10 unsaid, sir.

11 MR. BEAN: I think the majority of companies,
12 Dr. Mackintosh. Some have not. I can think of two
13 or three companies who are on the October 31 year-end
14 basis rather than the December 31.

15 COMMISSIONER BROWN: There is nothing sinister
16 in this, but can you account for this fourth quarter
17 variation?

18 MR. HODGSON: In our case there is a situation
19 that arises. We act as a mortgage finder for several
20 mortgage buyers -- life companies -- and under normal
21 circumstances the mortgage investments in this aspect
22 advances as the buildings go along, and they are
23 done in this time of year, the building season. The
24 majority or great bulk of the sales of the mortgages
25 to our principals take place in the latter portion
26 of the year. So that in these particular circumstances
27 the percentage of mortgages rises during the middle
28 term of the year and decline toward the end of the year.
29 What happens in that case is that you get a flow of
30 funds back which you keep short in order to go through



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1 the same thing in respect of your commitments the
2 next year. I do not say that this accounts for
3 all of this, but that sort of thing is a possibility.
4 I cannot think of any other specific reason that would
5 bring this about, but that has an effect in our case.

6 COMMISSIONER GIBSON: Window dressing is
7 unknown among trust companies.

8 MR. HODGSON: This is the obvious thing and
9 other organizations and finance institutions have
10 sometimes been referred to as doing this. I would
11 not think there is a great deal of it.

12 There is one other situation, of course.
13 Two companies I know specifically make their payments
14 for interest on July 1st and January 1st. This
15 increases the cash at December 31st because the funds,
16 or the assets are changed into cash from the cheques
17 that are issued dated January 1st.

18 COMMISSIONER BROWN: That builds the cash
19 up at December 31st, but the peculiar part about
20 it is that on the average at the end of the second
21 quarter, which would be June 30th, is the low point
22 throughout the year.

23 MR. HODGSON: I cannot account for that.

24 MR. BEAN: I should hate to be practical about
25 this thing, but undoubtedly a company will put its
26 best foot forward at the end of its published year.
27 There is no question about that. I think it would be
28 unrealistic not to do so.

29 COMMISSIONER BROWN: What are the requirements
30 in Ontario? I think it has been mentioned that it is



the same thing in respect of your committee the

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twice a year.

MR. BEAN: June 30th and December 31st.

MR. HODGSON: I thought I would make an addition perhaps to the answer to Mr. Gibson's question in respect of which Mr. Pembroke elaborated. In none of the legislation to my knowledge is there a liquidity requirement for term deposits; guaranteed investment certificates.

COMMISSIONER GIBSON: Regardless of the term, whether it is three months or five years?

MR. HODGSON: That is correct. It only applies to deposits, and the way the Ontario Act describes these, are deposits repayable on demand for up to 30 days. That is the conventional withholding period that is usually required in savings accounts.

COMMISSIONER LEMAN: Stemming from your plea for uniformity, it looks as though one of the recommendations of this Commission might be to suggest the date for the next Dominion-Provincial Conference, but more seriously, I would like to ask you whether your Association has done some work to obtaining more uniformity in the legislation. I believe it has, has it not?



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1 Now, what has been the impediment; who works against
2 the Association, non-member trust companies or who?

3 MR. FORTIN: I think in the long run it
4 is a very exacting and difficult study of the various
5 pieces of legislation because a lot of it is steeped
6 in antiquity. It has been that way a long time and
7 to go through the Act of one province and to get
8 at the language and starting with one, it takes
9 months and months and months because you run into
10 what has for so long been the practice, that by
11 the time you consult everybody and you negotiate
12 and discuss with the supervisory authorities, it
13 takes an awfully long time.

14 Some years ago, for example, in connection
15 with mortgages there was a committee reviewing the
16 Act, the Trust Corporations Act of Ontario, which
17 covers the various companies who report to the
18 Registrar of the province of Ontario. My recollection
19 is that we were at it for about fifteen months.
20 The Act was reorganized but it still left a lot of
21 questions where there was doubt as to its meaning
22 because it had been that way for a long time and
23 nobody wanted to disturb whatever these things meant.
24 We did change some, but it is a continuing process
25 and it is a long, arduous job and we must have if
26 you go to a province -- for example, Alberta recently
27 changed its Act and copied from the Ontario Act, but
28 there are difficulties nevertheless, and by the
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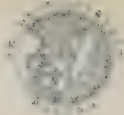
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1 be at it very comfortably for five years and do nothing
2 else and still have problems, and it is a terrific
3 job of studying and further to that, for example,
4 there are committees on uniformity of accounting
5 by provinces and I think that I have been asking
6 about some of these things for about fifteen years
7 and because you have different viewpoints and different
8 people they have got to be reconciled, it is a
9 long term proposition and the first step in my
10 opinion is to get acquiescence of the authorities
11 to sit down and do a study of it; to pick out of
12 each of them the best that there may be, and that
13 in itself becomes a matter of opinion. It is not
14 an easy task by any means, it is a long drawn out
15 affair.

16 COMMISSIONER LEMAN: Despite unanimous
17 recommendations by your Association?

18 MR. FORTIN: Yes, because you run into
19 niceties of language and text and Mr. Pembroke, for
20 example, enunciated one this morning, but there are
21 gradations of views even if you subscribe to the
22 principle in various areas; you know it is not an
23 easy task to convince a province that what it has
24 been doing might be better done in some other way.
25 You have to think of the prominent officials, you
26 have to think of the viewpoint of the Minister in
27 charge, and you have the legislature to worry about
28 and there are some things which you may feel that
29 you are not prepared to recommend because you have
30 the feeling that in this particular area the legislature



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1 will not go for it, so you have to work towards it at
2 a very slow sort of a pace. You just do not go and
3 say this is a "model act, put it in", it just does
4 not work that way.

5 MR. PEMBROKE: I think that Mr. Fortin
6 will probably agree that the easiest part of that
7 job is to get agreement of the professionals, the
8 superintendents and the registrars, and so forth;
9 they are much more willing, I think, to discuss
10 uniformity than their masters, the various Ministers
11 to whom they report.

12 THE CHAIRMAN: They have to persuade the
13 Ministers that they are responsible and generally
14 the Minister -- he is not necessarily a person who
15 is familiar with the intricacies of this involved
16 matter and hesitates to take the responsibility.

17 MR. PEMBROKE: The line of least
18 resistance is to do nothing.

19 THE CHAIRMAN: They have many greater prob-
20 lems of a greater political significance, perhaps.

21 MR. FORTIN: I think there is a tendency
22 to say, "Well, it has been working pretty well; why
23 raise the point?"

24 MR. BENSON: There is also a marked lack
25 of enthusiasm towards looking at Ontario as a model.

26 THE CHAIRMAN: We are all familiar with
27 that.

28 COMMISSIONER BROWN: You mean Ontario
29 or that attitude?

30 THE CHAIRMAN: I am afraid I am very familiar





1 with that. We are very modest men here.

2 I think that we might adjourn now for
3 ten minutes.

4 --- Recess.

5
6 THE CHAIRMAN: We will now resume.

7 COMMISSIONER MacKEEN: Mr. Bean, I have
8 a few general questions on mortgages and the mortgage
9 market, and I would like to enquire into this as
10 much as possible, and I have here a statement issued
11 by the Bank of Canada showing the assets and
12 liabilities of seventeen of the larger companies
13 extending over a period from 1951 to 1960 inclusive,
14 and from this it appears that assets and liabilities
15 have almost doubled.

16 On the asset side there is one interesting
17 item which is mortgages and agreements of sale which
18 have risen in every year from 1951 to 1960, and it
19 went from \$117 million in 1951 to a total of \$442
20 million in 1960, or nearly four times the 1951 figure
21 in that ten year period. This is nearly double the
22 increase for these companies percentage-wise upon
23 the increase in bonds. It is only exceeded, percentage-
24 wise, by the amounts shown as investments in corporate
25 and other bonds and in amounts it is comparatively
26 small.

27 The Commission will be interested in an
28 explanation of the various factors affecting this
29 apparent interest in mortgages as an investment. In
30 other words, there may be an improvement in income as



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THE CHAIRMAN: WE WILL NOW REOPEN

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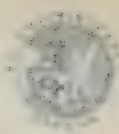
1 a factor.

2 MR. BEAN: I think the real answer to it
3 is to be found in the liability side of the statements,
4 in which you see that the guaranteed investment
5 certificate -- I am looking back ten years rather
6 than five -- but in the brief at page 80 it shows
7 that the G.I.C.'s at the end of 1950 totalled 166
8 million. At the end of 1960 they totalled 691
9 million, which is an increase of 530 million. During
10 that same period mortgages increased from 102 million
11 to 452 million, or an increase of 350 million,
12 approximately, and that, I think, is the real answer
13 because most of the companies are not at the end
14 of the spectrum that Mr. Pembroke is at, and they
15 do as a matter of policy and as a matter of ordinary
16 practice put most of their G.I.C. money into mortgages.

17 COMMISSIONER MacKEEN: Why?

18 MR. BEAN: I think simply for the reason
19 that most of us are not as successful as Mr. Pembroke
20 in investing our money elsewhere and cannot make a
21 living in paying the rates on the G.I.C.'s which we
22 do and it is invested in mortgages and this is how
23 this industry really operates.

24 The trust companies and the loan companies
25 have always been looked on as a ready source of funds
26 and they have done that and particularly they serve
27 the commitments of people on existing housing and it
28 is primarily upon the residential business, although
29 some companies take other types of property as
30 collateral for money lending, but primarily they have



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QUESTIONS AND ANSWERS

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4 loans for that reason, so that we feel we have an
5 obligation, really, to the people of the country
6 to provide as an intermediary substantial amounts of
7 money for mortgage purposes...

8 COMMISSIONER MacKEEN: Do you find that
9 income is much improved after paying the cost of
10 servicing the mortgage as compared to buying debentures;
11 that there is an improvement in that income?

12 MR. BEAN: Well, there are certain times,
13 certainly, when you wonder whether it is -- in fact,
14 you do add an alternative when rates are sufficiently
15 high you cut back some of your mortgage lending and
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26 COMMISSIONER MacKEEN: But it is a fact
27 there is no variation in book values as against the
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1 MR. BEAN: Speaking personally for our
2 own company I would say it has very little, if any.

3 Under the present regulations of the
4 various jurisdictions across the country, the trust
5 companies, like the life companies, have been
6 authorized to use in their annual statements to the
7 Registrar and elsewhere, amortized values for govern-
8 ment securities so that in effect it is not a very
9 great factor as choosing between investment in govern-
10 ment bonds or in mortgages.

11 COMMISSIONER MacKEEN: There is a certain
12 lack of liquidity in comparison with government
13 bonds; would that have any effect on your decisions?

14 MR. BEAN: To be a little facetious, I
15 think perhaps the mortgages are more liquid than the
16 Canada bonds, and I see in the most recent issue
17 they decided to put in a sinking fund which will
18 probably be about the same size as the one that
19 exists in mortgages. With mortgage accounts one
20 is always having large amounts of money coming due
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22 to the same extent are, in fact, from the standpoint
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1 COMMISSIONER MacKEEN: Well, a certain
2 amount of the mortgages, of course, go into, I suppose,
3 the G.I.C. account; we have Mr. Pembroke's suggestion
4 as to what the proper proportion is, the percentage.
5 What would your opinion be?

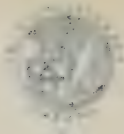
6 MR. BEAN: Well, I think perhaps I might
7 ask Mr. Thomas to speak to that; he is at the opposite
8 end of the spectrum.

9 COMMISSIONER MacKEEN: Pardon?

10 MR. BEAN: Mr. Thomas is here and his
11 company is at the opposite end of that spectrum where
12 they invest predominantly all their G.I.C. funds
13 in mortgages. Mr. Thomas?

14 MR. THOMAS: I think on the other side of
15 this we could probably give the Commission some
16 information on our operations. We have been in
17 business 73 years and we originated as a mortgage
18 loaning company and became a trust company in 1926.

19 However, as Mr. Bean has said, there have
20 been two reasons for mortgages; chiefly, to serve
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22 and, secondly, as an investment for our company.
23 Our guaranteed investment security fund has almost
24 totally invested in mortgages and we have a demand
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1 I think there is one other factor: There was some
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5 on a 10, 12 or 14-year period. So, every day you
6 have money coming in from principal as well as interest,
7 which is re-invested again from day to day. So,
8 you haven't got the situation of being faced with a
9 5-year certificate and then taking a three to five-year
10 mortgage on it which you have to wait for, because
11 they are being paid back -- quite a number of the
12 mortgages. So, you are always in a money position
13 as far as your certificates are concerned.

14 In addition to that, I think all of the companies
15 as well as ourselves maintain reserves, and in those
16 reserves we try to space the maturity of our bonds
17 in comparison with the maturity of the certificates.
18 So, in addition to mortgages to back up the certificates
19 we also have a reserve of bonds to meet the contingency
20 of having to meet guaranteed investment certificates.
21 I think that is the other side of the investment
22 company G.I.C. fund.

23 COMMISSIONER MacKEEN: Do you accept money
24 on demand -- deposits on demand?

25 MR. THOMAS: Yes.

26 COMMISSIONER MacKEEN: Suppose that money
27 were called?

28 MR. THOMAS: Are you speaking of demand
29 deposits?

30 COMMISSIONER MacKEEN: Yes.



I think there is one other factor: There was some discussion of liquidity. Practically all of our mortgages are on a monthly payment basis. You are getting part of your principal back, usually amortized on a 10, 12 or 14-year period. So, every day you have money coming in from principal as well as interest, which is re-invested again from day to day. So, you haven't got the situation of being faced with a 5-year certificate and then taking a three to five-year mortgage on it which you have to wait for, because they are being paid back -- quite a number of the mortgages. So, you are always in a money position as far as your certificates are concerned.

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1 MR. THOMAS: We don't invest that in mortgages.

2 COMMISSIONER MacKEEN: I see. I took it that
3 you invested it all in mortgages.

4 MR. THOMAS: No, it is the guaranteed invest-
5 ment funds we invest almost all in mortgages.

6 COMMISSIONER MacKEEN: You don't use any of
7 your deposit money for mortgages?

8 MR. THOMAS: Practically none. If it should
9 be, it would be a very small percentage.

10 COMMISSIONER MacKEEN: And the rest is on
11 term deposit?

12 MR. THOMAS: Yes.

13 COMMISSIONER MacKEEN: That is rather a
14 different situation from yours, Mr. Pembroke, where
15 a very heavy percentage is on demand.

16 MR. PEMBROKE: Yes, sir. What I think I said
17 was that our practice is not to invest any of that
18 type of money in mortgages. The only monies that
19 would go into mortgages in my own account would be
20 less than the sums available at five years.

21 MR. FARIBAULT: If I may, since one subsidiary
22 of ours is at the other end of the spectrum, just to
23 show how diversified this industry is: We have a
24 subsidiary which is practically in the same situation
25 as Mr. Thomas. We receive deposits payable on demand
26 and also guaranteed investment certificates. Practically
27 all of the guaranteed investment certificates are for
28 five years. They are all invested in mortgages, but
29 the mortgages are never for a longer term than three
30 years, which means that actually we can invest a good



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1 proportion of the money callable on demand in mortgages
2 also. So it is pretty difficult to generalize. We
3 don't do that in our main office, but this has been
4 the business of the subsidiary which was founded in 1880,
5 and the experience there has been practically the same
6 as that of Mr. Thomas.

7 COMMISSIONER MacKEEN: Mr. Bean, that three-
8 year mortgage would not be generally true of the
9 industry? It would be more like 15, 20 or 25 years,
10 wouldn't it?

11 MR. BEAN: I think again there is a great
12 diversity amongst companies as to what term they
13 accept them and write them. Certainly, I think the
14 standard throughout a great many years has been the
15 five-year mortgage which is more or less related
16 to the maturities of the guaranteed investment
17 certificates. Aside from some of these shorter-term
18 types of which Mr. Pembroke speaks, predominantly
19 throughout the industry they are for a period of three
20 to five years, and normally the highest period is for
21 five years. So, they tend closer to a five-year rate,
22 and the two at one time coincided fairly precisely.
23 So, you wrote a five-year mortgage and had a five-year
24 G.I.C. Now the situation is changing and our own
25 company, certainly, has had to accept mortgages written
26 for a much longer term than that.

27 COMMISSIONER MacKEEN: As a general matter
28 of practice you could amortize them over a 15, 20
29 or 25-year basis?

30 MR. BEAN: Yes.



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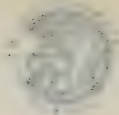
1 COMMISSIONER MacKEEN: And when the five-year
2 term was up it would automatically be renewed at
3 prevailing interest rates? You would not look to
4 calling them unless there was some gross negligence
5 or unsatisfactory matter on the borrower's part?

6 MR. BEAN: That is correct. Under the
7 practice which has been followed throughout the years
8 and which, as I say, is changing somewhat now, under
9 the practice which has existed over a long period
10 of time trust companies have taken mortgages on a
11 five-year term amortizing them over a somewhat longer
12 period, but as the result of taking them for a five-year
13 term they have become subject to what amounts to a
14 change in rate at the end of the five years and are
15 renewable for a further term of five years at varying
16 rates depending on the market.

17 COMMISSIONER MacKEEN: The five years is
18 to protect you largely against a change in rate?

19 MR. BEAN: That is correct, but there is a
20 tendency for companies who are making construction on
21 new housing -- it is a very competitive market, and
22 the insurance companies are in this market very heavily,
23 and on occasion they write freely loans on a basis of
24 20 and 25 years where the rate is not subject to change
25 at the end of each five-year period as they have been
26 traditionally in our industry. The possibility is
27 that as this competition increases we may more and more
28 have to meet this competition.

29 COMMISSIONER MacKEEN: You may even have to
30 go to 35 years.



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COMMISSIONER MCKINLEY: You may even have to

go to 25 years.



1 MR. BEAN: Well, I would hope not. I don't
2 think anybody has ever considered the possibility of
3 doing that.

4 COMMISSIONER MacKEEN: On an amortization
5 basis?

6 MR. BEAN: Not 35 years. I don't think
7 anybody I know of has gone beyond 25.

8 COMMISSIONER MacKEEN: I have heard of some
9 at 30.

10 MR. BEAN: There may have been.

11 COMMISSIONER MacKEEN: On the question of
12 percentages of values of property, which has been
13 raised very frequently before the Commission as we
14 have travelled about the country -- the two-thirds
15 basis of valuation: Do you say that should be carried
16 where it is, or decreased, or increased?

17 MR. BEAN: As a group I would say we feel
18 $66\frac{2}{3}$ is a reasonable proportion of value. Perhaps
19 our thinking ^{is} tempered by having seen the fluctuations
20 so closely as we have over a period of years, the
21 fluctuations in the value of real estate and, as we
22 lend to a considerable extent against existing properties,
23 it is rather repugnant to most of us to lend more
24 money than the property has sold for a very few years
25 ago, and I think we would all feel $66\frac{2}{3}$ is a fair
26 point having in mind the borrower and ourselves, to
27 give us a protection and to give him what would amount
28 to a reasonable loan against his property.

29 COMMISSIONER MacKEEN: If it were increased
30 to 75 per cent, which has been recommended, it would

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1 mean that practically every loan would go out at 75
2 per cent? One group of companies would not stand out
3 against that and get no business?

4 MR. BEAN: I think perhaps we would join
5 with Mr. Pembroke's company and do less in the mortgage
6 market.

7 COMMISSIONER LEMAN: What form does competition
8 take in this field of conventional mortgages on existing
9 properties -- interest rates, term? What are the factors
10 on which trust companies can compete between themselves?

11 MR. PEMBROKE: Any of them, sir: For example, up
12 to a fairly short time ago the trust companies in
13 general did not lend more than 60 per cent on their own
14 conservative valuation. Competition forced them up
15 to the 66 market.

16 COMMISSIONER LEMAN: Is there much competition
17 on an interest rate basis, or do these tend to
18 standardize?

19 MR. PEMBROKE: There is when there is change
20 being effected. The fellow who makes the change has
21 got the jump on the opposition. For example, if the
22 current rate on mortgages is running, say, at 6 per
23 cent and somebody all of a sudden changes that rate,
24 they get a head start on the opposition, because people
25 seeking mortgages know very well where to go to look for
26 them, and they do shop around.

27 MR. BEAN: I was going to say the same thing:
28 There is a great deal of shopping by people borrowing
29 money, even private individuals, and they will approach
30 several companies and the rates may vary, as they do



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2 of one per cent between the upper and lower limits
3 of lending rates of various companies. There is
4 a great deal of competition on the services provided
5 and their capacity to make loans quickly and easily.
6 All around it is a very competitive business.

7 I don't think there is as much competition,
8 really, from the standpoint of the size of the loan
9 as one might think generally, because I think all
10 companies, including the life companies who are the
11 other big institutional lenders, aside from Central
12 Mortgage and Housing -- and they are not involved
13 in this -- but to all companies 66-2/3 is a very
14 high limit and they are not prepared to extend the
15 valuation so as to make what would be a somewhat
16 larger loan than they do provide under the legal limit.

17 COMMISSIONER MacKEEN: Finders' fees
18 are pretty well universal?

19 MR. BEAN: I regret to say, yes.

20 COMMISSIONER MacKEEN: It is only recently
21 it has come into my part of the world. Once one
22 institution starts it, the rest have to follow or else.

23 MR. BEAN: Yes, I think there is some
24 misapprehension, or at least some misunderstanding
25 in the public minds as to the mortgage business. Most
26 companies, I believe, find good mortgages are difficult
27 to get. There has been very real shortage of mortgage
28 money over a period of time, and I know in the studies
29 being made I think most trust companies have felt,
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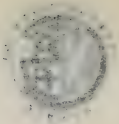
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2 COMMISSIONER MacKEEN: To get back to the
3 66-2/3 per cent basis, most mortgage offices or
4 institutions have had experience only in the protracted
5 period of inflation in building costs and property
6 values which have been sufficient to offset depreciation
7 on housing, and usually any loan that gets into difficulties
8 -- there is no question of being able to dispose of
9 the property; but there was a long period prior
10 to that time when the reverse was true. Do you see
11 any possibility of that in the future, that things
12 might level off to some extent.

13 MR. BEAN: Perhaps we have been living in
14 rather a Eutopia in the mortgage business for some
15 time, I agree; and the losses have been negligible,
16 and we certainly feel at some period in the future
17 there will be losses experienced, as you suggest,
18 in periods in which it is not possible to dispose of
19 properties quickly and easily and to obtain more
20 than the amount of mortgage plus the charges. It is
21 for that reason that in our submission we are suggesting
22 that there be some greater allowance made to the trust
23 companies in the provisions of reserves without paying
24 taxes on it.

25 COMMISSIONER MacKEEN: For that reason do you
26 feel it may be more reasonable to maintain a lower
27 ratio loan to the value of the property than to have
28 the market too thin?

29 MR. BEAN: Are you asking whether we would
30 recommend that the rate be 60 per cent rather than



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COMMISSIONER MacKEEN: Well, not increased over that.

MR. BEAN: I think, as I suggested earlier, that the trust companies generally are very close to property and property sales and fortunately, I think, for most companies the executive officer has lived through the period when these real estate properties and values were much lower than they are today, and I think that trust companies, as a group, are rather realistic in this approach to the 66-2/3 and their appraisals, and it is difficult to see how you can make a loan for more than a property sold for a matter of a few years ago.

COMMISSIONER MacKEEN: Well, you can get a speculative builder who puts an inflated value on a property, and it might happen that you would actually be loaning more than the 66-2/3, on the price he ultimately got for the property.

MR. BEAN: That is certainly a possibility. It depends upon the capacity of the inspectors of the company concerned, and many companies certainly put in a proviso on any speculative loans made that the loan will not exceed a percentage of the sale price, which gives some protection on the latter part of the point you mentioned.



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1 COMMISSIONER MacKEEN: That is, they retain
2 the whole thing until the property is sold to the
3 ultimate purchaser?

4 MR. BEAN: That is correct and they want
5 advances on their loan when the purchase has been
6 completed and we can get this $66\frac{2}{3}$ per cent of
7 the original price.

8 MR. PEMBROKE: A very large proportion of
9 those are completion loans, they do not pay any price.
10 The builder makes his banking arrangements to look
11 after him until such time as the building is completed.

12 COMMISSIONER MacKEEN: Until the building
13 is completed and rented for a short time?

14 MR. PEMBROKE: Yes.

15 COMMISSIONER MacKEEN: Then the full amount
16 would be paid out by the trust company?

17 MR. PEMBROKE: Unless there is the saving
18 clause such as Mr. Bean mentioned which is not, I think,
19 too general but that is part of the risk that we
20 try to assess when we are appraising the merits
21 of the loan.

22 COMMISSIONER MacKEEN: You will admit,
23 though, it is pretty hard to set a figure by a
24 builder to determine the exact cost?

25 MR. PEMBROKE: We make our own people
26 go into that very closely and we will frequently place
27 a limit on the amount that we will lend. If he runs
28 over it is just too bad for him.

29 I think you understand, sir, that we are
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1 the figures you gave for owned and guaranteed accounts
2 but tremendous buyers of long term mortgages for
3 estates, trusts and pension funds. The mortgages
4 we buy for them far, far exceed the amount we buy
5 of those other two kinds. Those are the long term
6 mortgages.

7 MR. BEAN: The relative figures for that,
8 Mr. MacKeen, are that I think in the trusts and
9 estates we have some \$650 million of mortgages as
10 against \$450 million in the guaranteed account.
11 We take them in both areas of business.

12 COMMISSIONER MacKEEN: \$450 million in
13 the guaranteed account -- what percentage would that
14 be to the total guaranteed account?

15 MR. BEAN: The total guaranteed account
16 is \$691 million. It is somewhere in the order of ...

17 MR. PEMBROKE: That is owned and guaranteed,
18 Mr. Bean?

19 MR. BEAN: Yes, they are not separated
20 but taking it on both, company funds and guaranteed
21 funds it is just over 60 per cent.

22 COMMISSIONER MacKEEN: Do you think that
23 is a reasonable figure for the industry as a whole?

24 MR. BEAN: It is awfully difficult, Mr.
25 MacKeen, to say that any figure is reasonable for
26 the industry as a whole when we have such a varied
27 group of companies as we have today and this is
28 influenced by Mr. Pembroke's operation which is
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1 COMMISSIONER MacKEEN: I suppose it would
2 depend to some extent on the amount of demand or callable
3 money that might be in the G.I. account or deposit
4 money or the amount of term money?

5 MR. BEAN: Yes it does, and to speak
6 of certain companies, of which we would be one, we
7 do not seek G.I.C. money unless we can invest it
8 profitably in mortgage investments unless the unusual
9 situation happens where you will put it in corporate
10 securities and other types of bonds so that generally
11 speaking the size of our G.I.C. account determines
12 the extent of our mortgage lending and vice versa.

13 COMMISSIONER MacKEEN: You do not take
14 any demand money into your G.I.C. account?

15 MR. BEAN: No.

16 COMMISSIONER MacKEEN: Well, that is not
17 true of all the industry, or is it?

18 MR. BEAN: No it is not, but I think it
19 is generally true of those companies who do tend to
20 invest most of their G.I.C. funds in mortgages but,
21 as I say, on the average or in general, observations
22 made on combined figures are not only misleading,
23 they do not tell the picture.

24 COMMISSIONER MacKEEN: Do rates vary
25 according to area across the country?

26 MR. BEAN: I do not think to any great
27 extent because I do not believe most insurance companies
28 now do and that is the competition. Perhaps Mr.
29 Knowlton could speak to this one.

30 MR. KNOWLTON: I think it does vary somewhat

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1 between various areas of the country.

2 COMMISSIONER MacKEEN: Like the man in
3 Toronto and the man in Halifax?

4 MR. KNOWLTON: Yes, and even Toronto
5 may be a little different than some parts of Ontario.

6 COMMISSIONER MacKEEN: There may be a
7 little difference from the Niagara Peninsula?

8 MR. KNOWLTON: That is right, sir. There
9 is the extra cost of servicing.

10 COMMISSIONER MacKEEN: Let us turn for
11 a minute to N.H.A., would it be desirable to have
12 it free from government policy and let the interest
13 rates take a chance on the market along with other
14 institutions?

15 MR. BEAN: Mr. MacKeen, we think it would
16 be helpful if it were a free rate such as we have
17 suggested that other rates should be free, but this
18 one in particular, because it leads to wide variations
19 in the amount of funds available for that part of the
20 mortgage market and at certain times companies who
21 would issue on a reasonable basis their N.H.A. loans
22 would stop completely because of the rigidity of that
23 rate and the fact that it does not respond to changes
24 in the balance of the market.

25 We think we would certainly agree that
26 it would be helpful if it were a free rate. There
27 would still be a great many companies who, due to
28 the terms of those loans which, as you suggest, on
29 occasions go as long as thirty, and I think the
30 authorized final term is thirty-five years, there would



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authorized final term is thirty-five years, there would



1 be many companies who would not entertain N.H.A. loans
2 in any event.

3 COMMISSIONER MacKEEN: It is an important
4 consideration, Mr. Bean, in this Commission's work.
5 I was wondering if any of the other members might
6 have some comments on it?

7 MR. BEAN: Perhaps Mr. Thomas might say
8 a word.

9 MR. THOMAS: My opinion is divided. I
10 think there is merit in the fixed rate under N.H.A.
11 operations and I think they would serve a purpose.
12 We have bought a number of them rather than loaning
13 directly on the N.H.A. because the other aspect of
14 the rate is this, that if we were to loan directly
15 to N.H.A. we feel the work involved in getting that
16 type of mortgage does not pay us at the rate that is
17 fixed for the mortgage. However, in purchasing
18 we find it alright, so I am neither for nor against.
19 I can see the advantages of a fixed rate and I can
20 also see the advantages of a free rate.

21 MR. FORTIN: I think, Mr. MacKeen, that
22 on an N.H.A. mortgage the fact that you are called
23 upon to make a long term loan for a high amount in
24 relation to appraised value for which you get insurance,
25 the differential in rate between the conventional rate
26 and the N.H.A. rate is in effect the cost of insurance
27 to the lender. Under the conventional loan you have
28 to provide your own provision for loss out of the higher
29 rate you get. While the insurance is not 100 per cent
30 and there are areas of the mortgage risk which are not

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to provide your own provision for loss out of the higher
rate you get. While the insurance is not 100 per cent
and there are areas of the mortgage risk which are not



1 insured under the N.H.A., nevertheless the insurance
2 you do get in case of loans would command a lower rate.

3 One of the factors of the N.H.A. has been
4 since 1944 that the borrower was assured of a fixed
5 rate of interest for 360 months or 420 months and he
6 undertook to pay X dollars per month. The lender
7 gets that amount of money. He can recover the bulk
8 of his account although because the insurance is
9 based on the time lag between the time of the fore-
10 closure action at the time you can obtain property
11 and deliver it to Central Mortgage occupied other
12 than by the owner of the property or any blood relation
13 of his you can sustain a loss on your account of, say,
14 10 per cent, 11 per cent, 13 per cent, depending
15 on the time lag.

16 Now, that time lag is at the risk of
17 the lender because he cannot obtain the property
18 except subject to equitable jurisdiction of the
19 courts. You can be subject to retarding actions
20 by subsequent encumbrances and all kinds of things
21 so that even if you were to start the -- the insurance
22 is one hundred per cent of the principal at the
23 proper rate of interest for the first six months
24 and for any extension of time you get the contract
25 rate less 2 per cent for 18 months more, so that
26 if you are talking in terms of a $6\frac{1}{2}$ per cent mortgage
27 you can recover the principal, you can recover $6\frac{1}{2}$ per
28 cent for six months and you can recover $4\frac{1}{2}$ per cent
29 for an additional 12 months. You can get \$350 on
30 costs. The rest is on your own.

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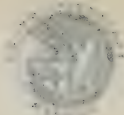
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1 So that if you are going to assure for
2 social reasons that the borrower, the house owner,
3 is to get a house on what has been described as the
4 equivalent of rent, the lender cannot expect, if
5 it is insured, to get the same rate as he would
6 without the insurance. One of the troubles with
7 the N.H.A. rate has been that it does not change
8 except at the prerogative of the government by
9 order-in-council. Today, for example, the N.H.A.
10 rate is $6\frac{1}{2}$ per cent and since the last couple of
11 weeks the prime rate in Canada on residential prime
12 mortgages, conventional, was $6\frac{3}{4}$ per cent. It
13 has now tended to move up so that while there is
14 still some $6\frac{3}{4}$ per cent money, the rate generally
15 on prime residential is 7 per cent with some $7\frac{1}{4}$ per
16 cent, but that rate is not the same for each company
17 because some companies are slower in moving, some
18 companies like the loan companies who do not do any
19 N.H.A. business at all did not go down to $6\frac{3}{4}$ per
20 cent.

21 So that you have a play on rates, but if
22 you expect the insurance feature then I think you cannot
23 expect the same rate of interest as you can get on
24 conventional loans. There are times when the
25 differential between the N.H.A. rate and the market
26 rate means that the companies pull out of the N.H.A.
27 wholly because it is not profitable. There are other
28 times, for example, last fall, when the differential
29 between the N.H.A. rate and the conventional rate was
30 too little and that gave rise to a drop in the N.H.A. rate



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1 from 6-3/4 per cent to 6½ per cent where it is now
2 at present.

3 So that while it would be advantageous
4 for mortgage lending and for the construction industry
5 to have the rate of interest in line with the market,
6 it should not necessarily be the conventional one
7 because of the insurance feature.

8 COMMISSIONER GIBSON: Do you think the
9 N.H.A. ought to be flexible, a free rate rather than
10 fixed?

11 MR. FORTIN: But you must have, if you
12 are going to give the insurance as well, there must
13 be a differential between the two.

14 COMMISSIONER GIBSON: Would not the law
15 of supply and demand determine that?

16 MR. FORTIN: It might in time.

17 COMMISSIONER LEMAN: In analyzing the
18 economics of the two types of mortgages and the reasons
19 why the lender cannot expect as good an interest
20 rate on an insured mortgage, are you allowing fully
21 for the fact that those N.H.A. mortgages are generally
22 for a much larger percentage of the value of the
23 property?

24 MR. FORTIN: That is one of the considerations
25 of the long term. You see, under a 30 year mortgage
26 the line of repayment crosses the depreciation feature
27 and there comes a time when you have more at stake
28 in your mortgage than the depreciated value of the
29 property because of the long term. If you have a 30-
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1 year mortgage and you are amortizing that property
2 over 20 years, obviously you will still have the
3 mortgage out where physically on the depreciation
4 factor your property is worth less than the mortgage
5 that is outstanding on it.

6 Now, those things do not take into account
7 really the market value because your loan under the
8 N.H.A. is 95 per cent of the first \$12,000 of lending
9 value and 70 per cent thereafter with a maximum of
10 \$14,500 on a house containing more than three bedrooms
11 and \$14,200 on a house that contains three bedrooms
12 or less. That loan value is pretty close to the
13 sale value under N.H.A. whereas on a conventional
14 loan your loan value is that value ascribed to a
15 property by a prudent lender as to what he thinks
16 he can recover under conditions of less favourable
17 economic circumstances and that value must be com-
18 petitive: otherwise the lender does not get any
19 loan.

20 So that you have, generally speaking, on
21 residential property, a lesser lending value convention-
22 wise and a lesser amount of loan than you do under
23 the N.H.A., partially because of the insurance feature.

24 COMMISSIONER MacKEEN: Mr. Bean, at times
25 of surplus money in your mortgage investments has
26 it been the practice of trust companies to buy the
27 N.H.A. package deal?

28 MR. BEAN: I do not think generally they
29 have, Mr. MacKeen. Certain companies -- Mr. Thomas
30 just said a minute ago that his company had purchased



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So that you have, generally speaking, on residential property, a lesser lending value convention wise and a lesser amount of loan than you do under the N.H.A., partially because of the insurance feature of surplus money in your mortgage investments has it been the practice of trust companies to buy the N.H.A. package deal?

MR. BRAN: I do not think generally they have, Mr. MacKeen. Certain companies -- Mr. Thomas just said a minute ago that his company had purchased



1 some N.H.A. mortgages -- we have on one occasion.

2 MR. PEMBROKE: We have purchased them.

3 MR. BEAN: Did you purchase them for
4 your guaranteed account or pension fund?

5 MR. PEMBROKE: No, for estates, trusts
6 and agencies.

7 MR. BEAN: There have been very few.

8 MR. MacKEEN: Did you divide them up
9 among the estates, trusts and agencies?

10 MR. PEMBROKE: Yes sir.

11 COMMISSIONER MacKEEN: You just put one
12 block in?

13 MR. PEMBROKE: You buy a large block and
14 it usually comprises a number of smaller properties
15 and we would allocate the specific mortgages but
16 we do not buy them unless we have got a place to put
17 them. We do not buy them for inventory.

18 COMMISSIONER MacKEEN: It was advocated
19 at one of our hearings that instead of making one
20 of these package deals that they should be government
21 guaranteed, movable across the nation without charge.
22 What do you think of that?

23 MR. PEMBROKE: In what way, sir, -- through
24 the secondary mortgage market conducted by Central
25 Mortgage and Housing Corporation or something like
26 that?

27 COMMISSIONER MacKEEN: By dealers.

28 MR. PEMBROKE: Yes, I think that would
29 meet our requirements. I do not believe there is
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1 probably use it if it were created.

2 COMMISSIONER MacKEEN: That would make it
3 to all intents and purposes a government guaranteed
4 bond?

5 MR. BEAN: It would be much more advantageous
6 for the nation not to do it that way. Actually we
7 can borrow directly on a much better basis than we
8 can through large issuing of obligations to no
9 advantage. Certainly as a vehicle of investment
10 from our standpoint we would probably welcome it but
11 it is difficult to see what advantage there would be
12 from a national standpoint.

13 COMMISSIONER MacKEEN: Is it the practice
14 of the companies to make any allocation between various
15 classes of mortgages, that is, residentials, multiples,
16 apartment buildings, commercial, et cetera?

17 MR. BEAN: There is no really hard and
18 fast pattern, Mr. MacKeen, in the industry that we
19 can see. There are some figures available as to the
20 proportions which have been invested in those types
21 of securities over the course of the last few years.
22 Predominantly I think trust companies are lenders
23 against residential properties. A large proportion
24 of that is against existing residential properties,
25 but they also take some commercial loans and undoubtedly
26 the size of the particular company will determine within
27 their own policy the size of the loan taken.



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1 In addition to that there are restrictions in certain
2 of the Trust and Loan Corporations Acts as to the size
3 of the loans which may be taken related to the capital
4 of the company concerned. There is also a relationship
5 between the ownership of the company, or the ownership
6 of the company which is borrowing, shall I say.

7 COMMISSIONER MacKEEN: Undoubtedly there has
8 been an improvement in the loan departments of the
9 companies. Has that affected the cost of administration
10 either way, up or down? In other words, you are employing
11 more and paying higher priced help which costs more
12 on the one hand but effects efficiency on the other.
13 How is that cost going, up or down?

14 MR. BEAN: I think the answer to that
15 generally, and we have had some discussions in this
16 regard in the industry, is that by the increased
17 use of mechanization in the various firms we have been
18 able to stay on the treadmill. This keeps our cost
19 at about the same level as it was before and has offset
20 the additional cost through higher levels of wages
21 and that sort of thing. Also the absorption in recent
22 years of changing what was formerly the general practice
23 in lending with semi-annual payments or quarterly
24 payments to monthly payment, and also the absorption
25 in many cases; the accepting of the payment of taxes,
26 accumulating the amount and paying the taxes for
27 the property owner has created a great many added
28 responsibilities which have been undertaken by mortgage
29 lenders in the last few years. Those additions and
30 the cost of those additions as far as we can see has



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1 about offset all the improvements we have made in our
2 own efficiency.

3 COMMISSIONER LEMAN: What brought this about?

4 MR. BEAN: Competition. Are you referring
5 to this business of monthly payments?

6 COMMISSIONER LEMAN: I suppose it actually
7 relates to competition especially?

8 MR. BEAN: It is really to meet the social
9 need, and on top of everything else it is competition.

10 COMMISSIONER LEMAN: The paying of taxes, etc.,
11 that was partly for the protection of the lender?

12 MR. FORTIN: That was a condition of the
13 N.H.A. from the beginning.

14 MR. HODGSON: Many of these things have
15 correlation with the conditions of the N.H.A. lending,
16 and this has had a very considerable influence, speaking
17 of my own company, on the conventional lending. Some
18 of the things that were mentioned earlier about the
19 lengthening out of term, and the additional handling
20 of the tax payments, as well as the increase in the
21 lending ratio all seem to have a very close correlation-
22 ship with the changes in the N.H.A. This I think
23 was pretty obvious and the natural thing to see
24 occurring. However, if we have the same extensions
25 under the N.H.A. in the next 10 years that we have
26 had in the last 10, and it does have an effect on the
27 conventional mortgage market, this puts a very definite
28 set of additional difficulties in front of us in
29 respect of the relationship of the term of liabilities
30 on the other side.



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of the things that were mentioned earlier about the

lengthening out of term, and the additional handling

of the tax payments, as well as the increase in the

lending ratio all seem to have a very close correlation-

ship with the changes in the N.H.A. This I think

was pretty obvious and the natural thing to see

accounting. However, it has been some time

under the N.H.A. in the next 10 years that we have

had in the last 10, and it does have an effect on the

conventional mortgage market, that puts a very definite

set of additional difficulties in front of us in

respect of the relationship of the term of liabilities

to the other side.



1 Whether the same kind of correlation exists
2 on the deposit liabilities that may be assessed against
3 Canada Savings bonds, shall we say, I do not know,
4 but there seems to be on the part of a person with
5 funds to invest, generally speaking, a requirement
6 of having a shorter period of lock-in, if you wish,
7 and the borrower has an increasing requirement for
8 longer-term payout. As these conditions have widened,
9 of course, they have multiplied the problem of relating
10 the mortgages with the term of G.I.C.

11 COMMISSIONER LEMAN: But the competition of
12 N.H.A. mortgages with the conventional mortgage
13 market has been rather indirect; it has not been
14 direct competition, has it? There were too many
15 factors distorting the competitive factors there, were
16 there not?

17 MR. FORTIN: I think perhaps that in respect
18 of new construction the competition of N.H.A. has
19 been very difficult. It has been very difficult to
20 finance as many new single houses by convention because
21 if the borrower can get a new house by promising to
22 pay for 30 years and paying \$695 down, this is
23 competition which conventionally you just cannot meet.
24 The consequence has been that most of the project
25 building across the country, not necessarily with
26 the same impact in various areas, and I refer to new
27 single houses, have been financed by N.H.A.

28 COMMISSIONER MacKEEN: Mr. Fortin, is there
29 any progress being made in respect of uniformity
30 of legislation by the Association between provinces?



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COMMISSIONER LEMAN: But the competition of

N.H.A. mortgages with the conventional mortgage market has been rather indirect; it has not been direct competition, has it? There were two main factors distorting the competitive factors there, were

there any?

MR. LEMAN: I think mortgage rates in general

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COMMISSIONER LEMAN: Mr. Lemman, is there

any progress being made in respect of uniformity of legislation by the Association between provinces?



1 MR. FORTIN: In respect of mortgages?

2 COMMISSIONER MacKEEN: Yes, mortgage legislation?

3 MR. FORTIN: None that I know of, sir.

4 COMMISSIONER MacKEEN: There is a good deal
5 of divergence between the different provinces?

6 MR. FORTIN: In each of the common law
7 provinces, and of course Quebec is an entity itself
8 in that respect, as Mr. Faribault can tell you, the
9 law relating to mortgages varies in some respect,
10 and in regard to procedure it varies. So if you have
11 a national business you have to rely on solicitors
12 familiar with Saskatchewan law if you are going to
13 lend in Saskatchewan, and on solicitors familiar with
14 B.C. law if you are going to lend in B.C. The subject
15 is highly technical and I am not competent to play
16 around with it, but we do have to rely on solicitors
17 in each province as to the technical position.

18 COMMISSIONER MacKEEN: I have the impression,
19 particularly in respect of delays in some provinces,
20 that there is difficulty in getting recourse to your
21 securities.

22 MR. FORTIN: Well, perhaps I had better
23 put it this way. There are provinces in which it is
24 easier to have recourse to your security than in other
25 provinces, as some of it arises from the provisions
26 of the judicature acts, for example. In Alberta there
27 is no personal covenant on a mortgage except on an
28 N.H.A. mortgage. In some provinces you must offer
29 the property for judicial sale before you can think
30 of a foreclosure action. Some legislation plus what



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1 has developed to be almost a law, but in the discretion
2 of the judges, where it is the practice to grant a
3 year's delay, and so on, are involved. These things
4 have to be taken into account as to what extent you
5 may wish to lend in those provinces.

6 We as lenders at times complain in respect
7 of the difficulties in some provinces as against those
8 in another. Those are business risks in respect of
9 mortgage lending. It is extremely difficult if not
10 impossible to obtain immediate legislation in favour
11 of the lender in, shall I say, a great majority of
12 provinces.

13 THE CHAIRMAN: Not so difficult to obtain
14 it in the interests of the buyer?

15 MR. FORTIN: That is right.

16 COMMISSIONER MacKEEN: One last question,
17 Mr. Bean, what would the Association think of the
18 C.M.H.C. acting as a lender of last resort in critical
19 times?

20 MR. BEAN: Well, as suggested in our brief,
21 Commissioner MacKeen, we think it may be done. We
22 feel that as an industry it would be very helpful
23 to spell out to some extent at least the terms and
24 conditions under which this arrangement could be made.
25 As you know, there is provision in the Act of incorporation
26 of C.M.H.C. for them to purchase mortgages from companies
27 such as trust companies and also to purchase their
28 G.I.C.s as an alternative. There has been no real
29 method of operating this, especially between the
30 industry and C.M.H.C., but we think it would be certainly



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1 in the public interest to have some lender of last
2 resort. As the Central Mortgage and Housing Corporation
3 is really the successor company, or the successor
4 institution to the original concept of the Central
5 Mortgage Bank, as was under consideration before the
6 war, they are probably the logical ones to handle
7 this. This is something we have not taken up directly
8 with C.M.H.C. for many years. As far as I know there
9 is only one occasion on which they have acted either
10 purchasing mortgages or buying G.I.C.'s of a company
11 in the lending industry, but it is something that is
12 desirable. We do not anticipate any economic catastrophe,
13 but at some stage or other there may be a more severe
14 recession than we have seen to date. Should that
15 happen it would be well before that time to establish
16 this and set up the rules.

17 COMMISSIONER MacKEEN: Might that have the
18 effect of making the lender a little incautious as
19 to the amount of commitments he was taking on, knowing
20 that he had that last resort?

21 MR. BEAN: Certainly we feel that whatever
22 rules are established, they should not be such in the
23 first instance as to enable companies to lend against
24 the knowledge that they can recover their position
25 by getting their funds from the Central Mortgage and
26 Housing Corporation, or whatever is the lender of
27 last resort.

28 COMMISSIONER MacKEEN: That is all, Mr.
29 Chairman.

30 COMMISSIONER LEMAN: You made that general



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COMMISSIONER BEAN: You made that general



1 recommendation but you did not get very precise about
2 how this would work. This involves practically a whole
3 field of study.

4 MR. BEAN: What we wanted to do in the brief
5 was to make the point that there is a need for it
6 and that it is something that should be worked out,
7 I should say, by a general study between ourselves
8 and C.M.H.C., or whatever the lender may be, in order
9 to cover precisely the points Mr. MacKeen has mentioned.
10 Certainly there is no suggestion or thought in our
11 minds that this would or could lead to any decrease
12 in our care to see that there was more lending, for
13 instance, than would normally be the case. This is
14 to meet an emergency, not to be the usual case.

15 COMMISSIONER LEMAN: What I meant by being
16 more precise was that one would have to study who
17 would have access to this lender of last resort
18 instrument?

19 MR. BEAN: Yes, and the terms.

20 COMMISSIONER LEMAN: Yes, how, and on what
21 arrangements. It is quite a complicated subject.
22 One thing in relation to what I might say amused
23 me a little bit has reference to paragraph 351 where
24 you say:

25 "Used more broadly, the function could
26 also be useful in employing government funds
27 for conventional mortgage lending --"
28 Are we looking for ways of employing government funds?

29 MR. BEAN: I do not think we need to at the
30 moment.

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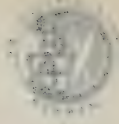
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1 MR. FORTIN: Mr. Leman, the present legislation
2 is double-fold. It may be used to provide funds for
3 mortgage lending through the instrument of Central
4 Mortgage and Housing to either purchase mortgages,
5 lend on mortgages or buying loan company debentures
6 or G.I.C.'s. Also it may be used as a bank of last
7 resort. In the discussion that took place between
8 Central Mortgage and Housing and the loan and trust
9 companies back in 1949, or maybe somewhere back there,
10 the feeling was that as of the conditions at that time
11 the Act should not be used as a means of providing
12 additional lending money. It was agreed that
13 it could be used and should be used in cases of difficulty.
14 We asked the Central Mortgage and Housing to define
15 the conditions under which it might give effect to
16 these provisions in the legislation. The Central
17 Mortgage and Housing Corporation's attitude was that
18 it could not anticipate conditions which may give rise
19 to the use of this legislation. Nor could it anticipate
20 terms under which it might make it effective, and there
21 the matter has rested since that time.

22 I think the brief suggests that it would
23 be advantageous if there could be developed, not
24 necessarily the exact terms, but rather a pattern of
25 how these provisions in the existing legislation could
26 be activated in case they needed to be, through
27 discussions which we hoped would take place.

28 COMMISSIONER LEMAN: Yes, but what I am
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MR. FORTIN: Mr. Lemay, the present legislation



1 should work. You have said that you think N.H.A.
2 rates should be more flexible in the form of the
3 market. It is not too clear in my mind whether what
4 you want is to get the government out of lending money
5 on N.H.A. mortgages and get rid of this investment and
6 let it out into the market, and have this role of
7 lender of last resort apply instead of the high investment
8 in mortgages.

9 MR. FORTIN: I was not thinking there has
10 been any situation yet where Central Mortgage has
11 used these powers as a means of providing additional
12 funds to mortgage lenders to lend. To my knowledge
13 it has only been used once in the case of an impending
14 problem of liquidity in one case.

15 COMMISSIONER GIBSON: In respect of this
16 same subject, for instance, in other cases lenders
17 of last resort, such as the relationship of the banks
18 to the Bank of Canada, or the money market and the
19 Bank of Canada, the sort of philosophy has been
20 made clear by the rules laid down, as you say, and
21 under the rules of this Act there is permissive
22 power there. The only other question I should like
23 to ask is, what sort of term would you think should
24 apply to these loans, a few weeks or months?
25 Do you feel they should be allowed to buy mortgages
26 as a different means of assisting altogether?

27 MR. BEAN: This is one of the areas, Mr.
28 Gibson, as evident in our discussions with Mr. Leman,
29 that has not been fully explored. Certainly we think
30 in terms of a relatively short period. Just what that



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MR. BRAN: This is one of the areas, Mr. Gibson, as evident in our discussions with Mr. Loran, that has not been fully explored. Certainly we think in terms of a relatively short period. Just what that



1 period would be we have really no firm idea. This
2 is something which we think should be explored and
3 investigated by ourselves and Central Mortgage and
4 Housing Corporation, should they be the vehicle through
5 which this is done? It would have to be, as you
6 suggest, have conditions which would certainly have
7 some penal element.

8 COMMISSIONER GIBSON: Some time limit; if
9 you do not put a time limit on it it becomes an
10 alternative way of raising funds.

11 MR. BEAN: It would have to have a penal
12 element making it impossible to raise funds for
13 investment in mortgages. This is something which we
14 think would be in the general nature for us to work
15 out over a period of time, but not too late a time
16 as this sort of thing may happen before it is developed.

17 MR. FORTIN: You will notice, Mr. Gibson,
18 that the legislation is applicable to life insurance
19 companies as well as to loan and to trust companies.
20 If I recall, during the 1949 discussions one point
21 which came up was that the rate of interest paid would
22 have to have a punitive element in it. In other words
23 the cost would have to be more than you could get
24 on the market. As I recall that was the only point
25 discussed in this regard.

26 COMMISSIONER LEMAN: Would this not really
27 work as another form of increasing the money supply
28 under such circumstances?

29 MR. FORTIN: I do not think so. Central
30 Mortgage in providing funds has to get them from Ottawa,



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COMMISSIONER LEMMON: How does it
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2 by mortgages, debentures or guaranteed investment
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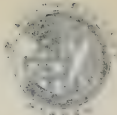
1 COMMISSIONER BROWN: In this whole realm
2 of mortgages has there been historically any develop-
3 ment or attempted development in Canada of institutions
4 somewhat akin to the Building and Loan Society
5 in the U.K. with a comparable deposit rate and a
6 comparable rate on mortgages; can the both operate
7 together on all outstanding mortgages at the same
8 time?

9 MR. FORTIN: I think all our loan
10 companies and a great many of the trust companies
11 started as building and loan societies in Canada
12 and what has happened is that many of them were
13 terminating societies, and that group of people got
14 together and wanted to build a house and they saved
15 their money and had a lottery and whoever picked
16 the right ticket got the house, and when the group
17 was finished the thing died. Today the legislation
18 does not permit in Ontario a terminating loan society.

19 First of all, you must remember that the
20 building societies in England have no power of
21 investment in securities except for a reserve which
22 is limited to trustee securities, so that the whole
23 of their operation is in respect of mortgage loans.

24 Well, the loans are on residential property
25 but it does not preclude them from making loans on
26 terms or commercial or industrial properties. In effect,
27 the mortgage document used by the building societies
28 has a condition which enables the lender to vary the
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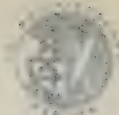


1 side in the building societies goes something like this;
2 the building societies sell what are called shares
3 and which are not in effect shares at all, they are
4 an obligation with the right of participating in the
5 election of directors and depending upon the terms
6 of each society, the shareholder has a right to get
7 his money back on call or on three months' notice
8 or whatever the case may be. They also take deposits,
9 but the deposits carry a rate of interest one-half
10 of one per cent less presently than the shares, and
11 the deposits have the priority.

12 Now, the cost of that money in Great Britain --
13 because I think the people of Great Britain are much
14 more attuned to the meaning of changes in bank rates
15 than we are in this country, and it means that to
16 maintain the funds which they have, if the building
17 and loans society change the rates on shares, it must
18 apply to all of the shares, not only those sold in the
19 future.

20 The result is that if they are called upon
21 to pay too high a rate on the shares in relation to
22 the rate coming in on the mortgages they have on the
23 books, they are caught, but not unlike trust companies
24 you have other means of income such as fees and
25 commissions and all the rest that goes with it, but
26 the building societies are essentially tied to the
27 mortgage rate, and while they have that power ----

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1 MR. FORTIN: No. I may say my information
2 is that the building societies in Great Britain are
3 very loathe to change the rate of interest on mort-
4 gages, very loathe indeed.

5 MR. MACKINTOSH: I would like to re-open
6 the subject we discussed yesterday and ask two more
7 questions.

8 We had some discussion concerning the
9 principles of bank shareholdings in trust companies
10 and trust company holdings in finance companies and
11 loan companies and so on, and I think the discussion
12 on the principle of it was fairly fruitful although
13 I am not sure we explored it as far as we might as
14 to the shareholdings of banks and trust companies,
15 and I would like to ask some questions as to the
16 practical results.

17 Do banks and trust companies and finance
18 companies generate business which is passed other
19 than through the market to their associate companies,
20 whether the association is through interlocking
21 directors, the ownership of a few shares or the
22 ownership of a lot of shares; has it important
23 practical results in the generation of mutually
24 interested people?

25 MR. BEAN: I do not know that we can
26 go any further than we do in the brief on that point.
27 We suggest in the brief that in so far as we can
28 see there has been no particular evidence of this.
29 Obviously there have been close associations over
30 a period of time and there are customers of the banks --

MR. FORTIN: No. I may say my information

is that the building societies in Great Britain are very loathe to change the rate of interest on mortgages, very loathe indeed.

MR. MACKINTOSH: I would like to re-open

the subject we discussed yesterday and ask two more

We had some discussion concerning the

principles of bank shareholdings in trust companies and trust company holdings in finance companies and loan companies and so on, and I think the discussion on the principle of it was fairly fruitful although I am not sure we explored it as far as we might as to the shareholdings of banks and trust companies, and I would like to ask some questions as to the practical results.

Do banks and trust companies and finance

companies generate business which is passed other than through the market to their associate companies, whether the association is through interlocking directors, the ownership of a few shares or the ownership of a lot of shares; has it important practical results in the generation of mutually interested parties?

MR. BEAN: I do not know that we can

go any further than we do in the brief on that point. We suggest in the brief that in so far as we can see there has been no particular evidence of this. Obviously there have been close associations over a period of time and there are customers of the banks -



1 all of us are -- and through this close association
2 there are obviously times at which they will suggest
3 the use of a trust company, and that sort of thing,
4 but as far as we can see there --

5 COMMISSIONER MACKINTOSH: Can you illustrate
6 this? I am only learning something about banks
7 and trust companies. What kind of business does
8 a bank generate?

9 MR. BEAN: I think ---

10 COMMISSIONER MACKINTOSH: That is
11 interesting to the trust company or vice versa?

12 MR. BEAN: One area is in bond trusteeships,
13 and that sort of thing; where a particular company
14 is going to borrow large sums, either from the bank
15 or partially from outside on an issue. This is a
16 particular example. Now, there might be no dis-
17 cussion beforehand or you might ask the bank, "Who
18 do you suggest?", and they may suggest X or Y trust
19 company or may suggest several.

20 COMMISSIONER MACKINTOSH: Is the bank
21 ever in a position where it would require these very
22 particular trust companies?

23 MR. BENSON: It is not precisely that.
24 Take the issue where the bank is taking, say, the
25 short maturity, which happened on a good many corporate
26 issues in the last decade. They were serials and
27 the bank was taking those to the underwriter at the
28 long terms. Now, the underwriter is a man who ought
29 to determine who will be the trustee to protect his
30 takers of the obligations. If a substantial purchaser



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1 of the obligation was to say, "I would like this
2 particular trustee to protect my interest in the
3 issue", then that is the thing which the underwriter
4 would take due notice of and obviously the person
5 who is making a large investment is the person who
6 ought to be given the most consideration as to where
7 the protection of his investment is going to lie.

8 COMMISSIONER MacKEEN: Whether it is
9 going to go one way or another.

10 MR. BENSON: Usually the receivership
11 follows the trusteeship of the issue.

12 COMMISSIONER MacKEEN: The ordinary
13 receivership ---

14 MR. BENSON: A bankruptcy sort of thing?

15 COMMISSIONER MacKEEN: Yes.

16 MR. BENSON: Trust companies in Canada
17 are not in the bankruptcy trusteeship business.

18 COMMISSIONER LEMAN: There is usually
19 provision in the trust for the replacement of a trustee,
20 and I have often seen that any replacement trustee
21 will be a trust company having a million dollars of
22 capital, or some such clause; that was to make sure
23 that the trustee is a recognized corporation in the
24 business with sufficient capital, but where does
25 the underwriter have much reason to choose between
26 one company or the other? We got the impression
27 from the discussion yesterday that all the members of this
28 association cannot show where the underwriter
29 would effect the need of having one rather than the
30 other. Is there any evidence from past practice



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1 that some trust companies who are members of your
2 association perform better as trustees than others?

3 MR. BENSON: Some of us think we do.

4 COMMISSIONER BROWN: Better developed.

5 MR. BEAN: Fortunately there is no
6 concrete evidence.

7 COMMISSIONER LEMAN: Concrete, that is
8 what I mean.

9 MR. FORTIN: I think that some of us
10 are equipped to do the job.

11 COMMISSIONER MACKINTOSH: Is there any
12 other area of procedure, trusteeship or receivership?
13 Trust companies, of course, are customers of banks,
14 but do they generate any other kind of business
15 which is important to the banks?

16 COMMISSIONER BROWN: Mr. Faribault mentioned
17 yesterday the possibility of providing a source where
18 the bank might satisfy the customer's client in an
19 area which the bank themselves couldn't satisfy directly,
20 and I assume he was referring to the same thing as
mortgages, but is this a factor?

21 MR. FARIBAULT: I would not say that it
22 is an important factor.

23 MR. BEAN: Certainly in the ordinary course
24 of business and in a very broad way there is one
25 thing which the banks do; the bank managers undoubtedly
26 are consulted by various people as to what they should
27 do about this and that, and in the ordinary course
28 of conversation they may have some mortgage problem
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1 suggest one or the other. It is very difficult to
2 assess this sort of thing.

3 MR. FARIBAULT: Or this might happen on a
4 prospective will.

5 MR. BEAN: This is very difficult to assess.
6 As far as we can say there has been a close association
7 in certain ways and a long association between various
8 trust companies and banks, but it certainly has not
9 been against the public interest from a competitive
10 standpoint amongst the companies; it has not been
11 something which is causing us great concern, let us put
12 it that way.

13 COMMISSIONER BROWN: You say it has not been ---

14 MR. BEAN: It has not been the cause of any
15 great concern.

16 COMMISSIONER MACKINTOSH: Mr. Faribault
17 mentioned that his company had a subsidiary, and I gathered
18 it was essentially a loan company. What about the
19 relationship between trust companies and loan companies,
20 where there is a relationship is it more a specialized
21 function in the loan company? He seemed to imply that
22 his loan subsidiary would go into long mortgages?

23 MR. FARIBAULT: It was started as a building
24 loan society and then changed over to a full trust
25 company, but at the present time it does not make any
26 lending loans, the lending activities are exactly those
27 of the trust company doing a fully fledged trust business
28 but having from this origin a large amount of deposits
29 from guaranteed certificates.

30 COMMISSIONER MACKINTOSH: I misunderstood what



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COMMISSIONER MACKINTOSH: I understand what



1 you said previously. Are there any other relationships
2 between loan and trust companies?

3 MR. BEAN: There are two very prominent
4 ones; there is the loan company and the trust company
5 and the two are in many ways complimentary. I do
6 not see any position there of conflict between them
7 in these areas, and they do much the same business
8 in a little different way aside from the operation of
9 the agency.

10 There are other cases where quite recently
11 trust companies are controlling loan companies with
12 again no particular conflict one way or the other in
13 that close association. It has been a very close
14 association all the way through, as you know, because
15 many of us are sponsors to loan corporations.

16 COMMISSIONER MACKINTOSH: Aside from what
17 I assume is the case, loan companies do not carry on
18 trust business, but do their investments differ? How
19 do their investments differ?

20 MR. BEAN: They differ very little in
21 actual practice.

22 COMMISSIONER LEMAN: Is it possible for
23 a trust company to become an avenue for the gathering
24 of funds for a finance company?

25 MR. BEAN: There are restrictions in the
26 quantum of a particular company which would work
27 against that. There are restrictions in the Act to
28 the amount you can loan to any particular company, but
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1 at the time the Act was drawn. So, there is protection
2 against that sort of thing happening.

3 COMMISSIONER MACKINTOSH: I think I have
4 heard of trust companies which have a close association
5 with a finance company. What are the advantages to
6 this? I expect that it is not just to earn income;
7 what kind of business is generated?

8 MR. HODGSON: Trust companies may be
9 trustees for the issuance of securities of a finance
10 company. They may hold the collateral against secured
11 notes or some such instrument which may be sold to the
12 general public, and this collateral is constantly changing.
13 It is a very active type of collateral, and this is one
14 area where a trust company could receive business from
15 a finance company.

16 COMMISSIONER MACKINTOSH: In an area where
17 a finance company would get business from a trust company?

18 MR. BEAN: It is a combination of securities.
19 We are speaking of a particular company at the moment,
20 we are not here to explain what their philosophy is,
21 we can only make assumptions how they are working, but
22 from the press one reads that the loan company is going
23 to act as a sub-agent of that particular trust company
24 in accepting deposits, or act as an agent of some sort,
25 I do not know quite how, but there are areas in which
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1 COMMISSIONER LEMAN: Would there be something
2 to say for a prohibition for a trust company to operate
3 as a trustee for any security of a company in which
4 they have a substantial interest?

5 MR. KNOWLTON: As far as a Dominion company
6 is concerned it cannot have a subsidiary or have a
7 substantial interest in any company; they are limited
8 to 5 per cent of capital.

9 MR. BEAN: You are taking in the matter of
10 conflict of interest.

11 COMMISSIONER LEMAN: Some of these finance
12 companies have a very high average; I suppose you could
13 have effective control over a finance company without
14 having had to invest too much in equity.



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1 COMMISSIONER LEMAN: There is such a thing --
2 in the United States they do make a distinction between
3 what they call effective control, and it is not 51
4 per cent of the stock.

5 COMMISSIONER MACKINTOSH: I infer from some
6 of this that the effective control is not too important;
7 that you have a great variety of these arrangements.
8 In some cases the holding of the other stock is
9 comparatively minor, and there are a number of inter-
10 locking directors. In some cases there are some of
11 these relationships -- the next thing to an agreement
12 between the companies to take in each other's washing
13 (if you are in the laundry business). There is
14 a developing inter-relationship which is not covered
15 at all by any prohibition of, say, a bank holding
16 more than 50 per cent of a trust company stock. I
17 don't think that has any effect whatever. All I am
18 interested in now is trying to understand what these
19 possible inter-relationships are -- why companies are
20 interested in these? What is it they generate?
21 I am sure when they are looking for investments they
22 just don't pick out a finance company rather than
23 a lumber company because they think it has a higher
24 rate of dividend. They do it because they think it
25 generates some interesting business.

26 MR. FARIBAULT: I think it comes back to a
27 question of principle. I had the opportunity of
28 submitting a separate brief to my board of directors.
29 It so happens eleven of those directors are also
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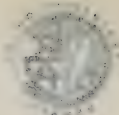


1 expressing the opinion that it was not proper for a
2 bank to control a trust company, and, generally
3 speaking, for any company to control a trust company.
4 The principle is that a trustee, generally speaking,
5 ought to be detached, independent and prudent on the
6 merits of every case that is submitted to him. That
7 was the rationale of the submission.

8 If you want to come down to precise details
9 as to what may happen, I think the answer is practically
10 the one I have given before: It is a question of
11 preserving the integrity and impartiality of the trustee.
12 Since the inter-locking directorships do not actually
13 mean much in the immediate working of the business of
14 a trust company, as was explained to the Commission
15 yesterday, we feel that this is important, that a
16 detachment be preserved and that a trustee be considered
17 entirely impartial from these considerations especially
18 as regards the immediate working of the company.

19 COMMISSIONER MACKINTOSH: Mr. Faribault,
20 my understanding is that banks are prohibited from
21 owning 51 per cent of the stock of trust companies:
22 What, then, do you mean by control?

23 MR. FARIBAULT: Well, it is rather difficult
24 to go into detail, but there is a case in the Province
25 of Quebec where a bank actually caused a trust company
26 to be incorporated and the capital was subscribed
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1 effected without at the same time there being a
2 transfer of the stock of the trust company. They
3 are tied in together.

4 COMMISSIONER MACKINTOSH: This goes further
5 than the General Motors-DuPont.

6 MR. FARIBAULT: This is as close control
7 as you can imagine. You could get the control of
8 the trust company by a bank through some other kind
9 of arrangement, if you say we need 51 per cent; but,
10 of course, the effective control does not need 51
11 per cent. There could be a subsidiary of a bank
12 which would hold the balance of the shares also. It
13 might be a loan company; it might be a small trust
14 company. So, I think there are a number of ways of
15 doing that indirectly, and that is why my own contention
16 is that a bank should not invest in the stock of a
17 trust company at all.

18 COMMISSIONER MACKINTOSH: You think that
19 would meet the whole situation?

20 MR. FARIBAULT: I do think there are dangers
21 if it does not operate. I think from the public
22 interest point of view it is much better that the
23 stock of a bank be held in many hands and it is also
24 much better that the stock of a trust company is also
25 held in many hands. We know that we are quite happy
26 and never happier than when some of our prospective
27 clients own shares in our company. Some companies
28 have by-laws or stipulations in their charter that
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7 there is a large amount of goodwill and tradition
8 coming into that. If you look at the thing closely
9 you see, for instance, it probably takes 30 years
10 after a will is made appointing a trust company as
11 executor before you get the business.

12 COMMISSIONER MACKINTOSH: Can I rely on that?

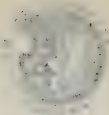
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14 will a good many years ago -- a prudent man.

15 COMMISSIONER BROWN: You are not sure he
16 has appointed a trust company, though.

17 MR. FARIBAULT: So, actually, we prefer that.

18 COMMISSIONER LEMAN: Mr. Faribault, you are
19 making the point about the independence of a trustee,
20 so he may perform his functions properly. That is
21 one angle that is very important in this discussion.
22 Dr. Mackintosh was asking questions in a slightly
23 different field: How can these associations be
24 used for competitive purposes? Could it lead to
25 undue concentration of financial power? That is
26 another field quite different from the strict business
27 of the independence of the trustee.

28 MR. FARIBAULT: I would imagine it would be
29 very easy, of course, for a bank controlling a trust
30 company to purchase the short-end securities and the



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very easy, of course, for a bank controlling a trust

company to purchase the short-end securities and the



1 trust company to purchase the long-term securities
2 of one single company. I don't say this is not done
3 in practice because of close association. It might
4 happen, but between it happening, sometimes, and
5 actually in the relationship being through the broker --
6 the investment dealer -- and the relationship being
7 otherwise so close that the tendency would be to
8 make a direct placement; I think there is quite a big
9 difference. In the same way you have been told by some
10 of the members here that when we want to sell we go
11 through the market. That means that we always try
12 to keep an independent stand and this permeates the
13 whole thing all the time.

14 MR. PEMBROKE: Mr. Chairman, as one of the
15 trust companies that enjoys and has enjoyed for many
16 years a close association with a bank I would not
17 want you to think I was running away from this question.
18 So, I would like to try to comment on it.

19 In my own case there is an association --
20 and I use the word 'advisedly', because in this particular
21 case the bank does not hold a certain amount of shares
22 of the stock of my company directly or indirectly.
23 There is an association and it is advantageous to
24 both sides: It is advantageous to the bank in that
25 we are a very big customer of the bank for ordinary
26 banking business. Our trust business generates a lot
27 of money -- trust funds or company funds, guaranteed
28 funds -- what have you -- and for the most part
29 that money finds its way through that particular bank
30 with which we are associated -- not 100 per cent,



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1 for various business reasons, but substantially it does
2 find its way into that one banking association. In
3 return for that I quite frankly expect the bank
4 to favour me when it is asked for recommendations
5 for business in my particular line of endeavour. There
6 again I don't expect, and I certainly don't get,
7 exclusive rights, as it were, to that business because
8 the bank also may well be and, in fact, is banker
9 to other trust organizations. I am aware that the
10 same type of association exists between other trust
11 companies and other banks, and I recognize quite clearly
12 that by reason of that association certain business
13 that might conceivably come to me will not come to me.
14 However, A balances B, and we live with that type of
15 setup.

16 It is also, I think, clearly recognized in
17 the trust company business that when you are dealing
18 with corporations, if the corporations are tied in
19 very closely with a particular chartered bank, the
20 probabilities are -- not a certainty -- but the
21 probabilities are that a substantial part of the
22 corporate business of that organization will go to
23 the trust company or companies with which the companies'
24 bankers are associated. That again is not inevitable
25 because some corporations believe in separating their
26 business among trust companies. But, speaking if I
27 may in a purely general way, that is the way it would
28 operate. We see, certainly, nothing sinister in it,
29 and we naturally do not give up our efforts to
30 convert the corporation straying into what we deem



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1 to be the wrong field, but we do not succeed too
2 often.

3 With respect to finance companies, we have
4 no association other than the possibility we may hold
5 in our own account -- and certainly in corporation
6 accounts, in trust accounts -- some stock of those
7 companies. We are, therefore, in a position to compete
8 with everybody for such business as we can get from
9 those corporations. There is no direct relationship
10 and, in effect, provided we do not acquire what Mr.
11 Faribault rightly refers to as an effective control
12 of that company, I see nothing sinister in that, and
13 certainly there is nothing in the possession of shares
14 of the company that would give us a specially preferred
15 position in dealing with it.

16 COMMISSIONER MACKINTOSH: Thank you, Mr.
17 Pembroke.

18 MR. BENSON: If we are going on with this
19 subject at the moment, Mr. Chairman, I would like
20 to mention briefly one of the points dealt with by
21 Mr. Faribault, the suggestion that because of the
22 independence and integrity of the trust companies'
23 position this should bar investment in its shares
24 by banks. Obviously, we could not take the position
25 about the matter we do in the brief if we thought
26 this could in any sense be true. Obviously, if the
27 association between a trust company and some other
28 institution such as a bank was that of parent-subsidary,
29 shall we say, that obviously raises a possibility of
30 conflict. Trust companies are continually dealing



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COMMERCIAL INVESTMENT TRUST CO., INC.

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1 with possibilities of conflict. The question of this
2 kind of ownership, however, does not amount to anything
3 more than the kind of concern a trust company would
4 have if there was any appearance of an identity of
5 interest between it and the other institution with
6 which it was dealing. Take the obvious kind of case
7 that can arise: A man dies who has a substantial
8 indebtedness, say, to a bank. A trust company is
9 appointed executor. The question of dealing with
10 that obligation may involve some very difficult
11 problems. It may be that it is a question of freezing
12 some outstanding guarantee. It may be a question of
13 settling a very substantial dispute as to whether
14 the liability exists or not. If there was any appearance
15 of identity of interest between the trust company and
16 that institution, the matter would have to be solved --
17 if it was not going to be solved by litigation, in
18 which the issue would be settled by the court -- it
19 would have to be settled by the trust company resigning.
20 The same thing would happen in the kind of situation
21 mentioned by Mr. Faribault where the trust company
22 is a trustee of a bond issue. The kind of conflict
23 Mr. Faribault speaks of is very unlikely in this
24 country. It is guarded against in the United States
25 by a lot of legislation because the bank in the
26 United States is invariably an unsecured creditor,
27 and if there should be default and the situation arises
28 where the interest of the trustee has to be protected
29 by enforcement, then issues can arise between the
30 bank as the creditor and the trustee. The kind of

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1 situation that arises under the United States legislation
2 is that if the bank begins to collect money on its
3 personal debt during a period when default is in the
4 offing, then there is a serious suspicion of whether
5 it can act independently with respect to its trusteeship
6 obligation. This can very rarely happen in Canada
7 because the bank is always in a preferred security
8 position to the trustee in a bond issue. However, even
9 if some such situation did arise there would not
10 be any question at all if the trustee found itself
11 having to deal in a situation of conflict with someone
12 with whom there could be any identity of interest,
13 including this question of investment, that it would
14 have to resign as trustee and allow someone else
15 to be appointed. But, to suggest a trust company
16 should not be trustee of the bond issue because a bank
17 is a shareholder in it would mean that in the thousands
18 and thousands of cases of bond issues where default
19 never occurs, it would be barred from doing this
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1 COMMISSIONER LEMAN: Well, in the States
2 they have rather precise laws as to qualifications of
3 trustees?

4 MR. BENSON: Yes, it is a very curious
5 difference of attitude. With us it is a question
6 of principle: Does this question identity of interest
7 arise? There, they disbar a trustee for acting as
8 trustee on an issue if one of the directors of the
9 company borrower is also a director of the trust company,
10 but if the board of the trust company is more than
11 nine, then you can have two directors. It is a
12 mathematical calculation. It seems curious to
13 us to cover such questions of independence of action
14 by mathematical formula and it is perfectly obvious
15 that you can have a trustee disqualified technically
16 and still be a very good trustee and you can have a
17 trustee that was not disqualified technically that
18 could be a very bad trustee.

19 So we do prefer the principle which we
20 follow of being very careful to watch for situations
21 of possible conflict.

22 COMMISSIONER BROWN: On this question of
23 directorship, I wonder if I might ask a question. In
24 view of the very large amount of the Canadian economy
25 that is controlled directly or indirectly through
26 trust companies through your estates, trusts and
27 agency account as well as directly, should there be
28 any nationality restriction on directors?

29 MR. FORTIN: Under the Ontario Act and the
30 Dominion Act I think the majority must be British citizens



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1 by birth or by naturalization.

2 COMMISSIONER BROWN: Does this apply to the
3 other provinces?

4 MR. FORTIN: I am not sure. It does
5 apply to Ontario and it does apply to the Dominion Act.

6 COMMISSIONER BROWN: What about Quebec?

7 MR. FARIBAULT: I do not know but I definitely
8 think there should be. I think, for instance, the
9 foreign insurance companies are obliged to have trust
10 money and their investments held by trustees. It is
11 normal it be a Canadian trustee as the law provides
12 and to continue the whole range of the logic
13 I think the directors of a trust company ought to be
14 Canadian citizens.

15 COMMISSIONER GIBSON: All of them or most
16 of them?

17 MR. FARIBAULT: Well, this is a matter that
18 has not been fully discussed but I seem to recall that
19 in England, for instance, the principle is that a
20 trustee generally of a trust which is to be operated
21 in Great Britain is supposed to be a British citizen.
22 This is merely a reference to the trustee relationship,
23 but I think it is pertinent.

24 MR. BEAN: The Ontario Act says:

25 "The majority of the directors shall at
26 all times be resident in Canada and
27 subjects of Her Majesty by birth or
28 naturalization."

29 COMMISSIONER MACKINTOSH: Shall all be?

30 MR. BEAN: The majority. So they must not



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COMMISSIONER MATHWORTHY: Shall all be?

MR. BEAN: The majority. So they must not



1 only be resident in Canada but British citizens.

2 COMMISSIONER BROWN: As far as you know
3 this applies only to the federal?

4 MR. BEAN: This is Ontario alone.

5 MR. FORTIN: And Alberta now, I believe,
6 because they copied that.

7 MR. BENSON: I do not know of the other
8 provinces.

9 THE CHAIRMAN: Well, we will adjourn until
10 a quarter to two today. I understand some of you
11 wish to get away this afternoon. I do not think we
12 should have a very long session this afternoon. If
13 we adjourn until a quarter to two that will perhaps
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15 --- Luncheon Adjournment.



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1 On resuming at 1:45 P.M.

2 MR. BEAN: Mr. Chairman, there is one point
3 that arose briefly in this morning's discussion which
4 I think we might look at for a very short period
5 before starting out on the questioning this afternoon
6 and that is this question which was raised by Mr.
7 Brown of building societies in Great Britain and
8 as it relates to the trend towards longer term mortgages
9 in Canada and more possibly longer term problems which
10 it may bring into our over-all economy.

11 As someone, I think, suggested this morning
12 there have been political suggestions that we need
13 some additional source of mortgage lending in the country
14 and there have been suggestions that we should have
15 in this country such organizations as the savings
16 and loan associations as they exist in the United
17 States and building societies which are comparable in
18 Great Britain. They look with some astonishment at
19 the proportion of deposits in the savings pool, shall
20 I say, which is in the hands of similar institutions.
21 The only similar institutions really in Canada are
22 the trust and loan corporations and they think, in
23 view of those percentages which are infinitesimal
24 in this country in proportion to those existing in
25 the United States and Great Britain it should be some
26 type of institution similar to those.

27 One of the problems which I think is going
28 to face the trust companies and the loan companies
29 in the same way over the course of the next few years
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1 that at some stage or another it may be necessary for
2 these lenders to perhaps go so far as to refuse to
3 make mortgage loans because as they become lower
4 the reward for taking what is undoubtedly a calculated
5 risk at what appears to be high rates, will mean
6 that the lower rate won't be sufficient to compensate
7 for the risk. I do not think any of the companies
8 are taking N.H.A. loans at 5 per cent whereas today
9 at $6\frac{1}{2}$ or $6\frac{3}{4}$ per cent it is a reasonable risk to run
10 to accept the limitations of the long term in so far
11 as our own requirements are concerned as long as there
12 is no real possibility of our having to pay a higher
13 rate ourselves to retain the money which was invested
14 in these assets where as if the rate is 5 per cent
15 there is no probability that at some stage or another
16 during the lifetime of those loans the company would
17 have to receive a higher rate than they do on the
18 asset which is being invested.

19 So there undoubtedly will come the point
20 if the interest cycle continues -- and we suspect
21 we are in a high area now to be followed by a low
22 situation, at some time or another there may be a time
23 when this capital may not be available and it may have
24 some drastic effects upon the building industry and
25 upon the economy and the reason it is being suggested
26 now is that the only solution we can see -- and we
27 can only suggest this as something for consideration --
28 is the possibility of incorporating generally and
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1 and as we discovered this morning those terms of
2 N.H.A. have generally been followed in normal conventional
3 lending -- and incorporated in those loans -- but if
4 we can now at this stage of the interest cycle introduce
5 the idea of having these loans written for a 25-year
6 period, shall we say, in which the interest rate is
7 only settled for the first five years of the term
8 and is subject to change at the end of that term --
9 as you know in Great Britain they leave the monthly
10 payments the same and simply reduce or increase,
11 because there are times when it has to be increased,
12 the amount applied on principal. That is, it would
13 have the effect of having the borrower in fact accepting
14 an average rate over a period of time on the interest
15 on his loan and it would also have the effect that
16 for the first time the institutions would be able
17 to get down to an average rate because under our
18 mortgage acts in this country any loan is repayable
19 after five years and certainly does not need to be paid
20 off when the rates are low, at least, if they have a
21 high rate on their loan it will be paid off and they
22 can refinance at the lower rate. So it is loaded
23 in favour of the investor and against the lender. This
24 would give both of them a five-year revision to get
25 back onto more of an equality.

26 It is suggested now because if it is going
27 to be sold to the Canadian public then this is the
28 time at which it should be done. People would accept
29 something such as this in contemplation of expecting
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1 would accept it if they are going to have to pay a
2 higher rate at some future date.

3 COMMISSIONER GIBSON: You think it might be
4 a good proposition now?

5 MR. BEAN: Yes, but I doubt very much if it
6 could be sold at a time when this other situation might
7 arise. So that if this is going to be a problem --
8 and we think it will be -- then now is the time to
9 plan for it or against it and the problem, as far as
10 the trust business is concerned, is that while we
11 are large lenders we are still not the major lenders
12 in mortgages and this problem really does not affect
13 the insurance companies to the same extent. They
14 are not too eagerly considering anything which will
15 increase their book work which this would undoubtedly
16 do.

17 COMMISSIONER GIBSON: Has anybody tried this or
18 considered trying it here in Canada?

19 MR. BEAN: To my knowledge no one has tried it.
20 I do not think it could be done really unless it were
21 done substantially by all lenders because initially
22 it would have to be sold and under what is now the
23 normal type of arrangement they would not go to
24 an institution.

25 COMMISSIONER BROWN: This would apply only
26 to the N.H.A. mortgages?

27 MR. BEAN: I should think it would apply to
28 all.

29 COMMISSIONER BROWN: The other loans at
30 the moment are largely the five-year type anyway.

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it would have to be sold and under what is now the

normal type of arrangement they would not go to

an auction.

COMMISSIONER GIBSON: I think it would apply only

to the U.S.A. mortgages?

MR. BEAN: I should think it would apply to

all.

COMMISSIONER BEAN: The other loans at

the moment are largely the five-year type anyway.



1 MR. HODGSON: They are extending.

2 MR. BEAN: There is a very definite tendency.

3 COMMISSIONER BROWN: That is true, you write
4 that type of loan now in the industry except that
5 you do not write it for N.H.A.?

6 MR. BEAN: That is correct, Mr. Brown, from
7 the standpoint of the individual although the companies
8 do this more or less together but from the standpoint
9 of the individual he has that protection now.

10 COMMISSIONER BROWN: But when interest rates
11 are low on your conventional loans you could insist
12 on that sort of term of mortgage yourselves and that
13 might possibly bring this about.

14 MR. BEAN: If the rate were low and we
15 insisted on this type of arrangement we would do no
16 loaning because the insurance companies would be taking
17 all the loans.

18 COMMISSIONER GIBSON: But at this time when
19 rates are fairly high if there were a shortage of
20 mortgage money you could probably say, "Well, these
21 are our terms", or if there was not a shortage you
22 would have to offer some concessions to other people
23 who are prepared to do it on the present basis, is that
24 right?

25 MR. BRAN: It certainly could not be done
26 without something of that nature, Mr. Gibson, unless,
27 as I say, it was done as a concerted effort to change
28 the basic form of mortgage lending in the country.

29 COMMISSIONER BROWN: It seems to me the most
30 you could hope for would be that this would be permissible.



MR. BEAN: That is correct.

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1 At the moment it is not permissible for N.H.A.

2 MR. BEAN: I think the most we can hope for
3 really, Mr. Brown, would be that the N.H.A. mortgages
4 be written that way and that there would be an actual
5 change in N.H.A. power.

6 COMMISSIONER BROWN: But if some lenders are
7 prepared to lend without that condition why should not
8 competitive conditions be allowed to play and write
9 it without that condition if they so wished.

10 MR. HODGSON: It would probably work fine
11 working down from the rates now but as Mr. Bean mentioned
12 earlier if we do consider the N.H.A. as a bell-wether
13 and as we talked about this morning there seems to be
14 a close relationship of other conventional mortgage
15 lending to the main conditions that are built into
16 the N.H.A., then this would probably make it more
17 acceptable to the conventional borrower in recognizing
18 that interest rates should rise as well as go down.
19 I would be inclined to think if the N.H.A. were not
20 part of this kind of scheme, yes competitively we
21 could attract probably very good mortgages at this
22 stage with this reduction clause in it but the reverse
23 might not work.



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1 COMMISSIONER BROWN: I think it would be too
2 much to expect rigidity to be built into the system
3 to try to make the competitive factors more effective.
4 Merely by making it say that it is permissive to write
5 N.H.A. mortgages on this basis is one thing, but to say
6 that all N.H.A. mortgages should be written on this
7 basis is something else again.

8 MR. HODGINS: I think what we also are saying
9 is that if it is a fact that this relationship does
10 exist between conventional lending and N.H.A., then
11 the conditions being put into N.H.A. are building
12 rigidities, and we are concerned not about the five
13 year mortgage, but about the 15 or 20 year mortgage
14 and the shortening of our deposit return.

15 COMMISSIONER BROWN: I realize this, but
16 the point is if somebody in the market is prepared
17 to write mortgages and do not require this condition
18 that they can change the rates on a five year basis,
19 why should they not be permitted so to do?

20 MR. BEAN: Mr. Brown, what I think we
21 were really suggesting is the elimination of what is
22 now a rigidity in the market, the rate running through
23 a 35 or 30 year period. We are trying to bring in
24 some flexibility in the rate itself. Certainly there
25 is no more reason why the N.H.A. should not be written
26 in these terms than as it is written today.

27 COMMISSIONER BROWN: I agree that there
28 is rigidity in that the N.H.A. can only be written in
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2 MR. BEAN: Except that we are eliminating
3 the rigidity in the rate itself in putting in a different
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5 in a system so the rate can fluctuate.

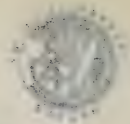
6 COMMISSIONER GIBSON: One of the big
7 attractions of N.H.A. is that there is a clear monthly
8 payment going ahead as far as you can see without
9 any variation, and you can only do that the way it is.

10 MR. BEAN: In this one you would have to
11 compensate any changes in interest rates by changes
12 in the amount of amortization. It would be increased
13 or decreased as the case may be, and the actual dollar
14 monthly payment would remain the same. It would have
15 the tendency of either increasing or decreasing the
16 term and length. Instead of being a fixed term it
17 would be what would amount to a varying term, depending
18 on the changes in the rate during the course of the
19 amortization of the loan.

20 Thank you, Mr. Chairman.

21 THE CHAIRMAN: I should like to proceed
22 now to pension fund administration, and there are
23 certain comments that you make in your summary to your
24 brief at paragraph 33. There are also considerable
25 details set forth at page 54 of the brief and following.

26 In paragraph 33 of the summary you mention
27 solvency of plans, and you say that since standards of
28 solvency involve great variations depending on the funding
29 principle and the actuarial assumptions adopted. You
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1 financial statements and so on, and you suggest that
2 for that reason the report did not include certification
3 or measurement of the solvency plans.

4 In respect of the report of the actuary,
5 it is not an absolute thing by any means, is it? There
6 are various methods of computing the actuarial possibilities,
7 so that there is a certain amount of leeway which must
8 be allowed to take care of any difficulties in actuarial
9 computation, is that right?

10 MR. BEAN: Yes, that is certainly correct,
11 Mr. Chairman.

12 THE CHAIRMAN: What sort of provision do
13 you make to cover that situation?

14 MR. BEAN: I should like to ask Mr. Hodgson
15 to answer this question because he is much more closely
16 associated with the pension problems than I am.

17 MR. HODGSON: I think, sir, in the first
18 place while we comment on solvency and adequacy, these
19 are not matters that are directly and specifically the
20 concern of the trustee of the pension funds which are
21 established for a pension plan. So that the actuary is
22 dealing with the corporation which has established a
23 pension plan, and he establishes for the company establishing
24 the plan the requirements of funds to be placed into
25 the pension fund in amounts in addition to the employees
26 contributions to this funds, so that on the basis of
27 his calculations and assumptions as to when the plan
28 will be funded, payments can be made in the form of
29 pensions in accordance with the plan.

30 The trust companies' position as trustee of

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The trust companies' position as trustee of



1 a pension fund is to receive the funds from the company
2 and from the employees and to invest these funds.

3 THE CHAIRMAN: Well, the trust company
4 does not participate in formulating the plan necessarily?

5 MR. HODGSON: No.

6 THE CHAIRMAN: So that the plan comes to
7 the trust company already formulated?

8 MR. HODGSON: The plan does not actually come
9 to the trust company, but the establishment of the pension
10 fund which supports the plan itself comes to the trust
11 company. The plan says how much a person will get in
12 the form of a pension at such a time.

13 THE CHAIRMAN: Yes, I see. You merely
14 invest the funds and pay them out as required according
15 to the plan?

16 MR. HODGSON: As the company directs us that
17 certain employees are now eligible for pension, or
18 payment should be made for people who have left the
19 plant, we do so.

20 THE CHAIRMAN: You have to satisfy yourself
21 that that information is correct, I suppose?

22 MR. HODGSON: No, we rely on the instructions
23 of the company.

24 THE CHAIRMAN: So that you rely entirely
25 on the instructions of the company then throughout?

26 MR. HODGSON: To make payments to the
27 beneficiaries, yes.

28 THE CHAIRMAN: Yes. Well, I understand
29 that also you are entitled to invest in common stocks.
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29 that also you are entitled to invest in common stocks.



1 As a matter of fact, most of these pension plans as I
2 understand it from these sections in your brief are
3 pretty wide open as to investments?

4 MR. HODGSON: That is correct, sir.

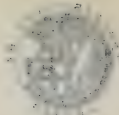
5 THE CHAIRMAN: So that you have considerable
6 power if you wish to exercise it to invest in common
7 stocks? What is your policy in that respect? Have
8 you any policy which you generally follow which applies
9 to all pension funds that come to you for administration
10 where you are allowed to invest in common stock?

11 MR. HODGSON: Perhaps if I might be allowed
12 to make one or two observations it will help clear this
13 up.

14 In respect of contributions to a pension
15 fund by employees and by the corporation establishing
16 the plan, to have such contributions claimable before
17 income tax, the Department of National Revenue requires
18 two limitations on the investment of the pension funds.
19 In other words, the pension fund must not hold any debt
20 obligations of the corporation which has established the
21 plan. Also, the income from the pension fund must be
22 such that not more than 10 per cent of the income arises
23 from foreign sources; in other words, U.S. securities
24 or other foreign securities. These are the only two
25 limitations which exist in the existing legislation to
26 make a plan registered under the Income Tax Act.

27 COMMISSIONER MacKEEN: Is there not a limitation,
28 Mr. Hodgson, in respect of the company's own stock that
29 may go into the pension fund?

30 MR. HODGSON: There was, Mr. MacKeen, but I



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COMMISSIONER MACKEN: Is there not a limitation

Mr. Hodgson, in respect of the company's own stock that may go into the pension fund?

MR. HODGSON: There was, Mr. Macken, but I



1 think that has been eliminated.

2 COMMISSIONER MacKEEN: I do not think so. Since
3 when?

4 MR. HODGSON: 1961, I believe.

5 COMMISSIONER MacKEEN: I thought they were
6 limited to 10 per cent of the market value, and if it
7 was above 10 per cent they had to sell stock.

8 MR. NELSON: That has been amended now. There
9 was such a regulation.

10 MR. PEMBROKE: That has been amended.

11 COMMISSIONER MacKEEN: There is no limit
12 on that now?

13 MR. NELSON: No limit on it now.

14 THE CHAIRMAN: As to common stocks, you say
15 in paragraph II⁵⁵ that the range of investment in common
16 stocks would be 20 to 40 per cent of the total portfolio.
17 That is your usual practice where you are restricted?

18 MR. HODGSON: That is the current position.
19 This has gradually increased over the years.

20 THE CHAIRMAN: The tendency is to increase
21 the proportion of common stock?

22 MR. HODGSON: It has been in the past.

23 THE CHAIRMAN: Could you give us any general
24 idea as to the amount of funds that are tied up in these
25 pension funds administered by trust companies? Is
26 that in your brief anywhere?

27 MR. HODGSON: I do not think we have that
28 information.

29 MR. PEMBROKE: Paragraph II⁴⁵, sir, gives
30 some figures in respect of trustee pension plans as a



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information.

MR. PEMBROKE: Paragraph 14, sir, gives

some figures in respect of trustee invested funds as a



1 whole.

2 MR. BEAN: There is a breakdown on page 58
3 of the investment of the two types.

4 THE CHAIRMAN: Oh, yes. It shows trustee
5 pension plans at \$3,616,000,000.

6 MR. HODGSON: Not all trustee plans are
7 administered by trust companies.

8 THE CHAIRMAN: What proportion would be
9 administered by trust companies?

10 MR. PEMBROKE: This is set out as to companies
11 at page 58, sir.

12 MR. KNOWLTON: In paragraph II-46 we state
13 that out of 1140 trustee pension plans shown in the
14 table 903 employ trust companies as trustees and in
15 addition to that they act as agents in many other cases.

16 THE CHAIRMAN: What page is that?

17 MR. KNOWLTON: Page 56.

18 COMMISSIONER GIBSON: You cannot give any
19 picture as to the distribution of assets?

20 MR. KNOWLTON: That is shown on page 58.

21 MR. PEMBROKE: It is shown at page 58 of
22 the brief.

23 MR. NELSON: It is in the brief.

24 MR. HODGSON: It is shown in paragraph II-50.

25 THE CHAIRMAN: Yes.

26 COMMISSIONER GIBSON: What I meant was a
27 division of total assets in trustee plans between the
28 trust companies and other trustees. You give the
29 division in number of plans, but not by assets administrable

30 MR. HODGSON: No, we do not have that. I would



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MR. HODGSON: No, we do not have that. I would



1 hazard the guess, and perhaps Mr. Pembroke will collaborate
2 with me in this regard, that the ratio of 903 to 1140
3 would probably be the same ratio in dollar value of the
4 \$3,600,000,000.

5 MR. NELSON: Oh, larger than that.

6 MR. HODGSON: Well, there are a few very
7 large self trustee plans.

8 THE CHAIRMAN: Well, this is a growing
9 department of your business, is it not?

10 MR. HODGSON: Yes, it is.

11 THE CHAIRMAN: When you invest in common
12 stocks what sort of principles do you apply to your
13 program of investment in common stocks? Is there
14 a very great diversification, or does that vary in
15 different funds? What sort of considerations do you
16 apply?

17 MR. HODGSON: Well, generally speaking, sir,
18 the same investment principles and research and analysis
19 that we perform on purchases of common stock for other
20 accounts. Generally speaking the holdings of common
21 stocks in these funds would be the same stocks as we
22 would hold for other accounts, let us say.

23 COMMISSIONER MacKEEN: What percentage
24 would be in common stocks?

25 MR. HODGSON: Over the entire industry about
26 20 to 40 per cent.

27 COMMISSIONER MacKEEN: That is as a hedge
28 against inflationary forces?

29 MR. HODGSON: Yes, partly that, sir, and
30 partly for the growth characteristics of increasing



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1 dividends.

2 COMMISSIONER MacKEEN: Most of the stocks
3 you buy on that basis would pay a lower interest return
4 than provincial savings bonds?

5 MR. HODGSON: Not all the stocks that would
6 be purchased in these funds would be so-called gross
7 stocks, no.

8 COMMISSIONER MacKEEN: They would be
9 comparatively low as compared to provincials today?

10 MR. HODGSON: Not in all cases. Do you
11 mean the yield on common stocks would be lower than
12 the yield on bonds?

13 COMMISSIONER MacKEEN: Yes, than on provincial
14 bonds.

15 MR. HODGSON: Well, not greatly, actually.
16 For example, this is one of the periods when both
17 stock market values are down, and bond values are down.
18 C.P.R. stock, for example, yields a pretty high rate
19 at the present time.

20 COMMISSIONER MacKEEN: What is the yield
21 now?

22 MR. HODGSON: Well, it is very close to
23 6 per cent. It is better than 6 now, I guess. However,
24 the principle in purchasing common stock in these
25 funds is the growth characteristic, not necessarily
26 in the value of the stock itself; that is the market
27 price of it, but its ability to increase its earnings
28 and its dividends so that a stock acquired at \$20
29 yielding 5 per cent, \$1 a year, may over a period of
30 years pay \$5 in dividends.



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COMMISSIONER MACKEN: They would be

comparatively low as compared to provincials today?

MR. HODGSON: Not in all cases. Do you

mean the yield on common stocks would be lower than

the yield on bonds?

COMMISSIONER MACKEN: Yes, than on provincials

bonds.

MR. HODGSON: Well, not greatly, actually.

For example, this is one of the periods when both

stock market values are down, and bond values are down.

C.P.R. stock, for example, yields a pretty high rate

at the present time.

COMMISSIONER MACKEN: What is the yield

now?

MR. HODGSON: Well, it is very close to

6 per cent. It is better than 6 now, I guess. However,

the principle in purchasing common stock in these

funds is the growth characteristic, not necessarily

in the value of the stock itself; that is the market

price of it, but its ability to increase its earnings

and its dividends so that a stock acquired at \$20

yielding 5 per cent, \$1 a year, may over a period of

years pay \$5 in dividends.



1 MR. PEMBROKE: I think, nevertheless, that
2 Mr. MacKeen's observation at the present time is generally
3 right. Yield on stocks is lower in general than you
4 get for bonds. It is compensated for, we hope, by
5 the additional growth characteristics.

6 MR. HODGSON: I think it is fair also to say
7 that the percentages of contributions coming into the
8 pension funds are not constant in their allocation to
9 various parts of securities. Common stocks may not
10 be purchased, for example, when they appear to be too
11 highly priced.

12 COMMISSIONER BROWN: Can you give us the
13 reasons why debt obligations of the company are pro-
14 hibited while the shares of the company are permitted?



MR. PEMBROKE: I think, nevertheless, that

Mr. Mackeen's observation at the present time is generally right. Yield on stocks is lower in general than you get for bonds. It is compensated for, we hope, by

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COMMISSIONER BROWN: Can you give us the

reasons why debt obligations of the company are prohibited while the shares of the company are permitted?



1 MR. HODGSON: I could only assume, Mr. Brown;
2 to my knowledge the trust companies add no contribution
3 in making this regulation, but I think that the basic
4 principle is in the sense of trust.

5 The pension fund when established, the company
6 establishing it can absolutely have no access to those
7 funds ever. When they make their company payment
8 to the fund it is irrevocable, it is established for
9 the trust and I think the principle involved was
10 strictly that the company couldn't reserve for its
11 own financing purposes but where the purpose of ownership
12 of common shares is concerned the same condition
13 doesn't exist.

14 COMMISSIONER LEMAN: Pappa couldn't rob
15 the piggy bank?

16 MR. HODGSON: Yes.

17 THE CHAIRMAN: This rather wide power of
18 investment in common stocks gives the trustee power
19 of diverting certain monies to equity investments of
20 their own choosing and gives them a certain power of
21 allocating the resources?

22 MR. HODGSON: Both in common stock and in
23 debt securities?

24 THE CHAIRMAN: Yes, but it would be a greater
25 power I would think in respect to the common stock?

26 MR. HODGSON: Well this, sir, hasn't been
27 the trend in Canada and this is one of our problems,
28 for example. You asked whether we diversified our
29 holdings of common stocks. We do, but unfortunately
30 in Canada the diversity available is not broad for



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1 several reasons, I guess. There are quite very
2 substantial areas of endeavour in Canada where no
3 common stock is available, very large companies, and
4 we are obviously prohibited from obtaining diversification
5 in those areas. This is one of the reasons why we
6 submit that we would like to see the 10 per cent of
7 income from foreign sources removed.

8 THE CHAIRMAN: This morning, Mr. Leman, I
9 think, mentioned the undue concentration of financial
10 power. I can understand that in your ordinary business
11 as trustees, in which you are handling estate funds
12 and funds of that kind, that you have very little elbow
13 room for diverting funds to any particular type of
14 economic development; you are limited pretty well
15 to bonds and mortgages and investments of that kind,
16 but once you get into the equity situation and you get
17 into it in a big enough way, eventually it becomes
18 quite a concentration of financial power which can be
19 used to be developed. You are in a position to choose
20 which direction of the economy you would like to place
21 that money. You are in a much more powerful position
22 than you are as an administrator of estates' funds
23 in the ordinary way, isn't that so?

24 MR. HODGSON: Except in so far as the same
25 trusteeship and stewardship exists. The funds are
26 larger and the blocks of funds are larger. The purchases
27 of debt securities would be in larger amounts.

28 You made a point earlier on allocating resources
29 to common stocks. Under the existing rules of taxation,
30 and so on, it is not, generally speaking, usually



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1 profitable for a corporation to finance through the
2 issue of stock, and on debt obligations with the
3 ability to charge the carrying charges of the bonds
4 against income before tax ---

5 THE CHAIRMAN: But it doesn't take a great deal
6 of stock sometimes to control a company?

7 MR. HODGSON: Well, this is a problem.

8 THE CHAIRMAN: You gather what I have in
9 mind?

10 MR. HODGSON: Yes.

11 THE CHAIRMAN: One of our problems is the
12 undue concentration of financial power.

13 MR. HODGSON: Yes.

14 THE CHAIRMAN: Of all these institutions;
15 the financial power becomes more and more concentrated
16 and the question is, is it salutary or otherwise
17 and is the public sufficiently protected otherwise, and
18 I think we understand that although you have large
19 sums invested for assets in gilt-edged securities of
20 one kind or another, debt security, on the whole from
21 the way you carry on your business as you describe it
22 here you regard those investments merely from the point
23 of view of security for the beneficiary and there is
24 very little elbow room for considering whether one
25 investment might make a greater contribution to a
26 certain economic development than another. You are
27 looking at it purely from the point of view of an
28 investment for Cestui que Trust and once you get into
29 equities in a big way and the power is in your hands
30 perhaps to control the situation for some purpose, and

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1 the investment may be in Cestui que Trust as another
2 investment and you have the power to choose between
3 one and another, then you have something which you
4 can exercise considerable influence beyond your ordinary
5 functions as trustee.

6 MR. NELSON: May I just --

7 THE CHAIRMAN: I am not suggesting that this
8 is so at the moment; these are trends that will develop
9 with the increase of this sort of business, and if
10 the day comes when you will be allowed to invest
11 35 per cent of your estate funds in equities, then
12 with the amount that your estate investments represent
13 now, which is \$8 billion or thereabouts, that being
14 the book value and not the real value, you can imagine
15 what 35 per cent involves throughout. There has been
16 a tremendous concentration of power in that equity
17 section which can be used quite properly, quite legally
18 to allocate the resources in the way that a certain
19 company, trust company, sees fit.

20 MR. HODGSON: This is quite true, and there
21 has been a great deal of writing and consideration of
22 this whole problem of the institutionalizing of funds
23 and the holding and control of those funds.

24 We touched yesterday on the matter of common
25 stock voting and we commented once or twice on the
26 words that we had put in the brief and the fact
27 that we -- it may be or probably would be a little
28 more desirable to have -- I think the word was a
29 more dynamic interest in all these corporations, and
30 I think that I can say on behalf of every trust company

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1 who has responsibility for trustee pension plans
2 that we realize our stewardship and our responsibility
3 very well.

4 THE CHAIRMAN: I am not suggesting for a moment
5 that by exercising this power that you find that you
6 will have -- and to some extent have now -- that you
7 are departing from sound principles with respect to
8 Cestui que trust, because I am assuming anything
9 invested would be a good investment from his point
10 of view, but I do suggest you have a choice of good
11 investments which will be equally good for him and you
12 have the power to divert those investments in a way
13 that you may choose and which may not have anything
14 to do with the purely investment factor.

15 MR. BEAN: There is another factor which
16 hasn't been brought out in a great many of these
17 cases, and that is consultation with the principal;
18 that is, with the company itself and the basic rules
19 and policies which are followed are always subject,
20 of course, to agreement by the trust company, but to
21 a large extent the philosophy of the investment of that
22 particular kind is determined in consultation between
23 the principles and the trustee and in many cases it
24 carries beyond the company itself.

25 I know our own company has certain cases
26 in which we discuss the philosophy of the investment
27 with those participating in the plan, with the union
28 representatives, and so on, so there are a great many
29 limiting factors upon the direction of those things, and
30 it is not a question of having this tremendous power



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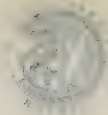
1 entirely in the hands of the trustee in the case of
2 trustee plans.

3 Mr. Gibson asked a moment ago about the
4 totals; I haven't got the figures for the end of 1961,
5 but at the end of 1960 the total of employee combination
6 trusts in the hands of trust companies was \$1 billion
7 137 million, and that is increasing at the rate -- it
8 increased from 1959 to 1960 roughly \$200 million,
9 so I would guess that this is in the order of \$1 billion
10 350 million at the end of 1961. That would compare
11 with the total trustee plans of \$3 billion, 616 million
12 and compared with \$1 billion 2 in the hands of life
13 insurance companies, and there in most cases these
14 are not trustee, and as to the insurance companies'
15 situation there are not the same consultation arrange-
16 ments which do take place in the trustee plans, which
17 are a very important part of the operation of a trustee
18 plan as between employer and employee.

19 COMMISSIONER MACKINTOSH: To put it more
20 simply, you have one of these trustee plans you invest
21 and you are investing currently, we will say, 40 per
22 cent of the intake in common stock, and that is not
23 solely because of your idea, that is probably what
24 the employer or the originator of the plan told you,
25 is that not right?

26 MR. BEAN: Not quite that baldly; I think
27 what really happens in most cases is that we sit down
28 together and reach an agreement as to what we think
29 is the best under the circumstances.

30 COMMISSIONER MACKINTOSH: But on the other hand --



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1 and with such consultation with his employees that
2 is reasonable under the plan -- say that they don't
3 want any common stocks at all, that is the finish of
4 it?

5 MR. BEAN: Yes.

6 COMMISSIONER MACKINTOSH: It is not a matter
7 of just your investment people looking sideways at
8 the plan and saying this calls for 27½ per cent common
9 stock; this is that investment policy which in large
10 part, if not whole, is suggested to you by the
11 originator of the plan? I don't mean that he comes
12 with fixed ideas, but after talking with you, this
13 is what he agrees to?

14 MR. BEAN: That is right; this is the
15 consultation arrangement, and I think that ordinarily
16 speaking it gets a bit repulsive to say that there
17 is a tendency to go along with these suggestions.

18 MR. HODGSON: Under normal circumstances
19 I think that the company would look to us for policy
20 and advice, and then make their counter suggestions
21 on what they would like to have, that they would like
22 to have more or less. However, the end result is the
23 same; a full knowledge of all purchases in the plan
24 and the sales are reported to the company and generally
25 speaking in addition to the consulting meetings that
26 go on constantly, regular meetings are also held.

27 COMMISSIONER MACKINTOSH: The trusteeship
28 is usually limited to saying that what goes into this
29 plan and what income is generated does not come out of
30 it except for the benefit of those who are named as

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MR. HODGSON: That is right.

COMMISSIONER BROWN: I was going to ask is there any prohibition in the trustee investment in its own common stock?

MR. BEAN: No.

MR. HODGSON: I don't think so, but as a matter of principle we don't do it in our company. I don't think any trust company does.

COMMISSIONER BROWN: Would it be a good idea if this were a prohibition?

THE CHAIRMAN: Wouldn't that be a conflict of interests? You regard it as a conflict of interests, and that is a different principle entirely. I am not suggesting for a moment from what I have said that you have been or are contemplating any undue use of these equities that are coming into your hands, I am simply looking towards the future when these funds will grow, no doubt, and the estate funds have grown so that they amount to billions of dollars.

MR. BENSON: The classic example ---

THE CHAIRMAN: The power is in your hands and it could be used for violating your trust responsibility. I am not suggesting it would be because I don't think the way that you approach the whole business that you carry on -- I don't think you contemplate any ulterior considerations.

MR. BENSON: If we wanted to put the trust company stock in a plan, we would do our best to try to find another client that would be as good an invest-



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1 ment as our own;

2 THE CHAIRMAN: I think that might be the
3 obvious contemplated interest which it is scrupulous
4 to avoid.

5 COMMISSIONER BROWN: Could I ask a couple
6 of questions to clarify some points, and I think that
7 there can be fairly short answers.

8 Are these invested in provincial jurisdictions,
9 in the head offices of the companies?

10 MR. BEAN: The status of the trust itself?

11 COMMISSIONER BROWN: Yes?

12 MR. BEAN: I think in most cases there are
13 problems of jurisdiction and succession duties.

14 MR. HODGSON: Generally speaking what happens
15 is that the actual investment is carried out in the
16 status of the plan; the head office investment depart-
17 ment give policy recommendations to the local offices,
18 but generally speaking the actual investment is
19 carried out in the provincial area.

20 COMMISSIONER BROWN: This is general to all
21 companies?

22 MR. HODGSON: I think so.

23 COMMISSIONER BROWN: The second question is
24 that I know with the agency accounts you have
25 complications with succession duties in other provinces?

26 MR. HODGSON: Yes.

27 COMMISSIONER BROWN: Does this apply to pension
28 plans?

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1 MR. KNOWLTON: It does, yes.

2 MR. BEAN: It still exists.

3 COMMISSIONER BROWN: Pardon?

4 MR. BEAN: There is still some problem involved
5 between provinces. They are being gradually ironed
6 out.

7 COMMISSIONER BROWN: This applies on pension
8 funds?

9 MR. BEAN: Yes.

10 COMMISSIONER BROWN: This cannot be avoided?

11 MR. BEAN: With the co-operation of the
12 provincial authorities it can be.

13 COMMISSIONER BROWN: This is a problem in
14 the capital market, isn't it?

15 MR. BEAN: I don't think it is a serious
16 problem at the moment. What differences there are are
17 being ironed out and it has been improving a good
18 deal in the past year, and I suggest it can probably
19 be completely eliminated.

20 MR. KNOWLTON: It has helped a great deal
21 since eight of the provinces have gone out of the
22 succession duty field.

23 COMMISSIONER BROWN: But you still have this
24 problem in Ontario and Quebec -- if somebody dies in
25 Vancouver and this involves a succession duty problem
26 in Ontario?

27 MR. KNOWLTON: That is quite true, sir.

28 MR. BEAN: Yes, but I don't think it is a
29 serious problem.

30 THE CHAIRMAN: The Minister of National Revenue



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THE CHAIRMAN: The Minister of National Revenue



1 has power, apparently, to de-register a plan on the
2 grounds the employer has failed to make contributions.
3 When that is done, what happens to the fund?

4 MR. HODGSON: To my knowledge, sir, company
5 contributions which are payable to the plan are denied
6 the advantage of income tax benefit.

7 COMMISSIONER MACKINTOSH: What about the
8 individual contributions?

9 MR. HODGSON: I don't think the individual is
10 penalized.

11 COMMISSIONER LEMAN: Oh, yes.

12 THE CHAIRMAN: I would think he would be.

13 These payments that have been made
14 into these funds over a period before it is
15 de-registered -- assume that: What happens? When does
16 the income tax provision take effect? Does it apply
17 to any of these previous contributions?

18 MR. HODGSON: I have never had an experience
19 on this one; I don't know. That is what prompted
20 my remark that I didn't think the employees' contributions
21 would be affected.

22 COMMISSIONER LEMAN: As to the future it would.
23 tax
24 On the personal income form it says, "Contributions
25 to a registered plan"; that is what you get a deduction
26 for.

27 MR. BEAN: I believe there have been cases
28 where it has been suspended and that has been the case.

29 MR. PEMBROKE: It would not be retroactive.

30 MR. BEAN: But the trusts set up and the funds
available to pay the pension from that date would not



has power, apparently, to de-register a plan on the grounds the employer has failed to make contributions. When that is done, what happens to the funds?

MR. HODGSON: To my knowledge, sir, company contributions which are payable to the plan are denied the advantage of income tax benefit.

COMMISSIONER MACKINTOSH: What about the individual contributions?

MR. HODGSON: I don't think the individual is penalized.

COMMISSIONER LEMAN: Yes.

THE CHAIRMAN: I would think he would be.

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1 be affected.

2 THE CHAIRMAN: Apparently if a plan is de-
3 registered on the ground the employer has failed to
4 make contributions, the employer makes no further
5 contributions, the plan continues with the contributions
6 of the employees only?

7 MR. BENSON: One would presume this would have
8 the effect of forcing the employer to remedy the methods
9 by which he is funding the plan, and this is a weapon
10 to use to keep the plan one that is satisfactory.

11 COMMISSIONER LEMAN: Actuarially sound.

12 MR. BENSON: Yes.

13 COMMISSIONER MACKINTOSH: I think the key to
14 this is that the supervision by National Revenue was
15 originally at any rate, a purely taxation matter, and
16 therefore the Minister says, "This is no longer a proper
17 plan and contributions to it are not eligible for
18 deduction from taxable income."

19 MR. BEAN: That is right.

20 COMMISSIONER MACKINTOSH: "You can go ahead
21 and fix it up and make it into a proper plan, and then
22 you can resume", but he has nothing to do, I don't
23 think, with what is already in the fund. That is
24 governed by the by-laws of the fund and whatever
25 liabilities have been created.

26 MR. BEAN: And the pressure on the employer --
27 should the plan be suspended, the pressure by his
28 employees would be very forceful.

29 COMMISSIONER LEMAN: And the union.

30 THE CHAIRMAN: Are there no special penalties



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1 provided for the employer?

2 MR. BENSON: On a suspension of the fund?

3 THE CHAIRMAN: Yes.

4 MR. BENSON: No. He can't get the tax benefit.

5 THE CHAIRMAN: Perhaps he has no money left
6 to pay by way of a penalty.

7 COMMISSIONER MACKINTOSH: It is simple to
8 say that the child has now reached a certain age and
9 there is no allowance on your income tax: It is the
10 same remedy.

11 THE CHAIRMAN: In paragraph 34 -- this is
12 in the summary -- you mention: "... a strong case
13 can be made for raising of the restriction limiting
14 any plan's income from foreign securities to 10 per
15 cent of total income." What grounds do you suggest
16 would be advisable to invest more than 10 per cent
17 in foreign security?

18 MR. HODGSON: Well, this would be almost
19 entirely common stocks. At the present time and in
20 the past there has been no advantage in acquiring debt
21 securities outside the country. I was making the point
22 a little earlier that in Canada we are unable to obtain
23 a full diversification in industries and in endeavour,
24 and certain industries are completely denied to us
25 in Canada both where the industries exist and where
26 they do not exist, and the idea basically was to permit
27 the acquisition of common stocks that would give us
28 this diversification. It would be most unlikely, for
29 example, that any purchases would be made of stocks
30 where opportunities existed in Canada, but there are many



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1 fields, and very large and rapidly growing fields
2 which are not available.

3 I might say these words were written before
4 the exchange crisis was known, and obviously in the
5 short run this may not be nationally desirable, but
6 from the point of view of sound investment policy we
7 believe that the point is desirable. At the present
8 time 10 per cent of income, I would venture to guess
9 there is no problem for most of the pension plans
10 currently in operation in meeting this 10 per cent
11 limit. Our company has been working, or had been
12 working on a general investment policy that not more
13 than 25 per cent of the common stock portion of the
14 portfolio would be recommended to be invested in
15 foreign securities, which if the common stock portion
16 was 40 per cent this would be not more than 10 per
17 cent of the total portfolio. The trend toward common
18 stock investments in pension funds -- in the United
19 States they have gone very much further than we have
20 in this matter, and whether conditions will exist in
21 future that may lead us to assume that it would be
22 desirable to recommend a higher percentage of common
23 stocks, then the 10 per cent of income might be a
24 restriction.

25 THE CHAIRMAN: I have just one other question
26 I wish to ask, and that is with reference to the next
27 paragraph, 35, in which you object to competition
28 offered by insurance companies in the area of pension
29 funds. What do you say about that? Why should
30 insurance companies be excluded from this field?

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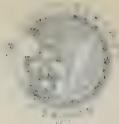
1 MR. BENSON: We mention it merely to be
2 consistent with the position we have taken throughout
3 the brief in which we emphasize -- perhaps this shows
4 too much reverence for economic principles, which
5 perhaps have all been abolished -- that the value of
6 specialization in definite areas among the various
7 intermediaries has, we believe, shown itself to be
8 an advantage through leading, as specialization is
9 always supposed to do, to enterprise and energy
10 and developed services along one particular line,
11 and this is just one case of an instance where this
12 probably has been departed from, and we regret it.

13 COMMISSIONER LEMAN: There is no patent
14 protection?

15 MR. BENSON: There is no patent protection,
16 and we are quite prepared to meet competition.

17 THE CHAIRMAN: As to agency services I don't
18 think I have any questions.

19 COMMISSIONER GIBSON: Just a few questions
20 on the matter of your responsiveness to monetary
21 policy and the interest rates and credit conditions --
22 that is, in the guaranteed company sector of the
23 business. Looking at the Study it would appear that
24 among the principal responses to changes in monetary
25 conditions were the change in your cash ratios, your
26 liquidation of bond holdings, when money is tight.
27 If you refer to that table we were talking about this
28 morning, Table II-35 near page II-60 you will see
29 quite a marked decline in the cash ratio, that is,
30 ratio of currency and banking deposits, to chequing



deposits in the period 1955-56 when money was tight, and again the same thing in 1959. It is a drop to a rather different level of cash ratio in both those periods. So far as the switch out of bonds and mortgages is concerned, this is made very clear in charts 14 and 15. Would you care to comment on this phenomenon? I am talking about two tight money periods we have had in recent times and how the company has responded with your own guaranteed funds. And these conclusions, as indicated from your figures, accurate conclusions?

of what we were discussing yesterday and some aspects of the company's response.

COMMISSIONER GIBSON: In some ways it is, yes.

MR. BEAN: There is no question but when the whole monetary system is tightened that we feel it very quickly as a group of operating companies. As we discussed yesterday, there is a fair sized element of our deposit funds which are responsive to interest rates and tend to be attracted away from us.

COMMISSIONER GIBSON: We did yesterday discuss your response to the tight money and the tight money on the liabilities side. Now I am talking about your own assets and guarantee assets.

MR. BEAN: Which comes back to the assets side because it is that responsiveness to the liability which affects our asset side as well and tends to have an effect upon our cash and liquid assets and to



1 run it down, and then be placed one way or another,
2 either through attracting additional funds from higher
3 rates on G.I.C.'s, through liquidation of bond holdings,
4 and it is quite evident in the chart there is some
5 tendency to that, and you let the normal course of
6 repayments, coming in from mortgages, and so on, run
7 it back up again. So undoubtedly in these periods
8 we will get low points.

9 COMMISSIONER GIBSON: How do you look at
10 your cash in a position like this? When you run your
11 cash balances down sharply this is a signal to pull
12 in your horns and tighten up and sell bonds?

13 MR. BEAN: Yes, we do everything we can to
14 conserve cash and reduce commitments and cut back on
15 mortgage lending.

16 COMMISSIONER GIBSON: Do you have some sort
17 of conventional ideas in your minds as to how much cash
18 you ought to hold?

19 MR. BEAN: I think that the cash holdings,
20 as you can see from the other chart, run somewhere
21 between five and 10 per cent on deposits; it will
22 hit a low and bounce back again to the higher amount.

23 COMMISSIONER GIBSON: Of course, these have
24 the year-end figures in them and these vary; they are
25 almost as low as $3\frac{1}{2}$ at times and then get up to
26 15.

27 MR. BEAN: There is a quarterly chart there as
28 well. There is a monthly which shows it as well, on
29 Chart II-12, but there certainly is a point at which --
30 and I think we mentioned it this morning -- there may be



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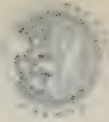
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1 occasions when certain companies may borrow some
2 cash from the banks which is taken off, so it can get
3 -- it is deducted as a liability; but there are times
4 when it may get down to 3 or $3\frac{1}{2}$ per cent on a very
5 temporary basis.

6 MR. HODGSON: I think Mr. Thomas this morning
7 made an interesting observation, that we are more inclined
8 to take the non-cash liquid assets here as defined as
9 loans and treasury bills. Most trust companies, I
10 believe, in the bond portfolio they maintain will have
11 a very great amount of short-term bonds. Now, it is
12 possible as of today, for example, if we were to take
13 and check the liquid resources and to use day loans
14 and treasury bills only, and yet a company may have
15 a sizeable amount of funds in the 3 per cent Government
16 of Canada bonds due on the first of August this year.
17 Similarly, I am quite sure all companies in their
18 portfolios will have what are known as money market
19 bonds. Most of their holdings will be in these.



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1 I think what happens first is that the day
2 loans and treasury bills are sold first before the bonds
3 are sold to avoid taking a loss. It probably would
4 have been much better if the bonds had been sold first,
5 but you take a position, I think -- I need not say very
6 much, but the fact of the matter is that these figures
7 are misleading when they do not include the short term
8 government bonds and if we consider our non-cash
9 liquid resources as being only these two items.

10 We were probably remiss in not making this
11 point very clear but I think it is a very serious point
12 and perhaps a very serious omission in not having this
13 information available.

14 COMMISSIONER GIBSON: I think it is very
15 helpful to us to have this information on the short
16 term loans because there were corporates and govern-
17 ment bonds and it did leave a gap. What the picture
18 looks like is much as you described, as if you ran
19 your cash down and then started to sell your bonds
20 and this does not say which ones except Government
21 of Canada, and while this is going on your mortgage
22 holdings are going up. That is the next thing I wanted
23 to ask about. Why are your mortgage holdings going
24 up when money is tight? Is it because you have
25 commitments which you are honouring?

26 MR. HODGSON: It is certainly a factor and
27 has to be taken into account. Perhaps Mr. Bean would
28 like to comment on this, but I would think that generally
29 speaking new commitments slow down.

30 COMMISSIONER GIBSON: Is it the higher interest



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1 rates that are directing it?

2 MR. HODGSON: Well, you cannot buy mortgages
3 if you have not got money..

4 COMMISSIONER GIBSON: But your mortgages
5 have not gone up in periods of tight money and your
6 bonds have. Why would you switch into mortgages?

7 MR. BEAN: Mainly for commitments. Most
8 of these commitments are taken on a basis of advances
9 within 90 days or thereabouts, and it may take as
10 long as a year to work out of your commitments on
11 mortgages and construction loans and that sort of
12 thing. There are a number of them built into the
13 system, so even on the ordinary ones it is going to
14 take at least 90 days to work out your commitments
15 down to a point where you might want to have them at
16 that stage of the cycle.

17 COMMISSIONER GIBSON: While you do not
18 have too much control you have to meet those commit-
19 ments and this means a continuous outflow of money?

20 MR. BEAN: Yes, we pull back as fast as we
21 can but these are things over which we have no control.

22 MR. THOMAS: I might give a practical
23 demonstration. In our company every morning, in fact,
24 we look at our cash position throughout our branches.
25 We allocate so much cash for each branch to operate
26 each day along with our head office. At times you will
27 have a heavy withdrawal of cash. As has been said, these
28 mortgage commitments, you may be up to several million
29 dollars commitments, but we feel you can write off
30 casually perhaps 50 per cent of them. You have got



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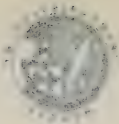
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3 your cash position and then decide whether you are going
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5 look at your bonds. At the same time you look at
6 the pattern of money coming in and it might show an
7 uplift and you say: "Well, we can weather it this
8 week, we will not have to sell bonds". So you have
9 to look at it each day, looking at your mortgage
10 commitments, money coming in, your deposits and your cash
11 position can vary several millions in two or three days.

12 COMMISSIONER GIBSON: On the mortgage side
13 you have these commitments and you carry them on. Do
14 you also have the problem of maintaining the continuity
15 with builders and connections; in other words, do you
16 like to keep a fairly even keel with people when their
17 needs are great and they are calling on you?

18 MR. BEAN: There is no question during that
19 period you will be doing a limited amount of what you
20 might call normal lending which you are forced to do
21 unless the situation becomes very dire. In order to
22 keep certain people in business, for one thing, you
23 cannot say to a builder you have been financing: "We
24 are going to stop giving you money completely". All
25 we can do is say: "Instead of building ten houses you
26 will have to build two".

27 COMMISSIONER GIBSON: This is a prime part of
28 your business and you make a great effort to give your
29 customers as good a deal as possible?

30 MR. BEAN: We certainly try to be as fair as



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1 possible, but certainly cutting back is very drastic.

2 COMMISSIONER GIBSON: On this business of
3 the spread in interest rates between what you put in
4 your guaranteed funds and what you get in mortgages
5 there is a chart here which is chart I-4. This chart
6 is near page I-40. This chart shows the spreads
7 between what you earn by mortgages and it shows what
8 you earned in mortgages over the period from 1951 to
9 1960 and then the total of mortgages, bonds and
10 debentures, and then it shows what you paid on deposits
11 and investment certificates, also the percentages
12 and the spread varies a bit, but on balance it has gone
13 down over that period to some extent. Is this spread
14 a very important factor in your thinking? Do you
15 tighten up when it narrows down and get very competitive
16 when it widens a bit?

17 MR. BEAN: It is certainly an important factor,
18 Mr. Gibson, and it is always in our thinking. There
19 is a point beyond which you cannot go. As you can see
20 the tendency is to a reduction which is spread over a
21 period of years which I would suggest is almost entirely
22 competition and competitive factors because as we
23 suggested this morning the economics and the economies
24 of doing business really have not changed very much.
25 If anything, probably our costs of doing business have
26 risen and as is suggested on the basis of this there
27 is no reason we cannot operate on that spread now.

28 COMMISSIONER GIBSON: If this spread gets
29 pretty narrow and your mortgage rates are going down
30



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risen and as is suggested on the basis of this there

is no reason we cannot operate on that spread now.

COMMISSIONER GIBSON: Is this spread going

pretty narrow and your mortgage rates are going down



1 a bit and you do not quite go down with the market, do
2 you lose much business?

3 MR. BEAN: Well, the business which you lose --
4 and the greatest competition, of course, is in this
5 G.I.C. spread fund, that area, -- you will see that
6 they do run down at a very slow rate because it is
7 divided over monthly maturities spread over a long
8 period of time so that you can temporarily be non-
9 competitive if you decide the spread is too low to
10 make it worthwhile.

11 COMMISSIONER GIBSON: On the other side,
12 suppose you keep the mortgage rate right in line with
13 the market, that you do not lower the rate and it is
14 coming down a little, do you lose business quickly
15 or is this very gradual, or do the customers come back
16 to you?

17 MR. BEAN: The customers follow the rate
18 very well. Certainly if they can borrow cheaper some-
19 where else, they are going to borrow it at the lowest
20 point. As you say, they are pretty well educated to
21 look for the best bargains.

22 MR. HODGSON: I was going to say they
23 come back to us to tell us that the rate is too high.

24 MR. BEAN: I think you have heard of that
25 before, Mr. Gibson.

26 COMMISSIONER GIBSON: Going on to the question
27 of your own securities, your own bonds in particular,
28 are you particularly inhibited in selling them by the
29 question of book loss? We talked about the trust
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1 MR. BEAN: There are a number of factors
2 in that area. I think we all realize that taxation
3 is one of them and it certainly has been the practice,
4 I think, of a number of companies who in the normal
5 course of events would set up reserves out of earnings
6 who would realize losses and make trades that would
7 amount to a write-down in much the same way. I would
8 say that by and large we are not too severely inhibited
9 due to the tax factor in making exchanges to our
10 benefit which would involve a loss.

11 COMMISSIONER GIBSON: Now, we have talked
12 to companies that employ inventories and bond portfolios
13 and found it a useful source of revenue and some of
14 them were inclined to think it was not. Is this
15 true in the trust company business, too?

16 MR. HODGSON: I think a flat statement that
17 the capital company account portfolio is not a trading
18 portfolio would be correct.

19 MR. BEAN: The capital account is certainly
20 not a trading portfolio. We in the companies have
21 to be very careful because if we make it a trading
22 portfolio our taxation position will change.

23 COMMISSIONER GIBSON: How about the guaranteed
24 trust?

25 MR. HODGSON: The commissions are different.
26 The guaranteed account is a trading portfolio where
27 losses are claimable as an expense and capital gains
28 are taxed.

29 COMMISSIONER GIBSON: So on your guaranteed
30 account you can do quite a lot of trading?

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1 MR. HODGSON: Yes, you may, but in the
2 company account this is not the case.

3 MR. BEAN: I think in actual fact we do
4 not do an awful lot of trading, Mr. Gibson. There
5 is some trading done to improve positions, some
6 trading done to alter maturity tendencies, some
7 trading done to take care of spreads and that sort of
8 thing, but by and large -- I think I know the insurance
9 companies do it that way.

10 COMMISSIONER GIBSON: Well, there seemed
11 to be three or four, one in particular.

12 MR. BEAN: Yes.

13 COMMISSIONER GIBSON: I would like to return
14 to something earlier that I did not understand and
15 maybe some of the other Commissioners did not understand.
16 This was on the subject of selling against a loss and
17 the matter of the common trust fund where you said
18 to us that there was this problem of taking losses
19 and sharing losses, the problem of division between
20 the immediate beneficiary and the main demand. What
21 I cannot understand is why is there any problem in an
22 estate of taking some funds and putting them into
23 a common trust fund? Whether the price is above
24 or below par at that time would not make any difference,
25 would it, when they make their initial investment?

26 MR. PEMBROKE: Same as buying the stock
27 on the open market.

28 COMMISSIONER GIBSON: Can you explain that
29 more fully?

30 MR. BEAN: Let us look at it this way. We



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1 have a common trust fund, taking an extreme example,
2 in which the units are selling at 80 and on a current
3 yield basis are yielding, say, 5 per cent although
4 you have the individual securities within it and on
5 an amortized basis which you cannot use for this purpose.
6 You have to have the actual amount coming out of the
7 fund the same as for a particular estate coming into
8 the fund. Whereas these securities are valued on
9 a 6 per cent basis it means that if you take the same
10 funds from the same estate and invest them in high
11 quality securities at 6 per cent the life tenant
12 would be entitled to the income. So you cannot very
13 well put those funds into the common trust fund where
14 you are only going to get a current return of 5 per cent.

15 COMMISSIONER GIBSON: Why is that? I
16 thought you valued it at market value when you put
17 it in.

18 MR. BEAN: We do, but we can only take
19 out the current income and she is not going to get
20 the benefit of the amortization.

21 COMMISSIONER GIBSON: The actual amount
22 is not going to go out?

23 MR. BEAN: No. If through happenstance
24 the market value of that should gain the same way as
25 if we had bought a 6 per cent bond at par, that gain
26 does not go to the life tenant, it goes to the re-
27 mainderman, so you effectively deprive the widow
28 of an income of, say, one per cent and they do not
29 like that.

30 COMMISSIONER GIBSON: You have not seen any



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COMMISSIONER GIBSON: You have not seen any



1 light through this technical maze yet?

2 MR. BEAN: Well, there are some mitigating
3 factors. In some cases widows are not so concerned
4 about it as in others and she can waive. She can say:
5 "I do not care, put it in there", so it goes in.

6 COMMISSIONER GIBSON: You cannot work out
7 an arrangement with the tax department for funds of
8 this kind that would overcome this difficulty?

9 MR. BEAN: It is not a tax problem. It
10 is a share used by the people who are not competent
11 to forgive their shares. It is a conflict between
12 the life tenant and the remaindermen and the remainder-
13 men are not always competent to deal with it.

14 COMMISSIONER GIBSON: Oh, all you can pay
15 out is the actual income that comes into the fund and
16 every once in a while a bond matures at par and there
17 is a capital gain there. Can you not pay that out
18 as income without a tax problem?

19 MR. KNOWLTON: It is not a tax problem;
20 it is a case of who you pay it out to because there
21 has been a continual flow of money coming in and money
22 going out. Who owns it except those that were in
23 there at that time?

24 COMMISSIONER GIBSON: It seems to me you
25 should have been able to work out something along that
26 line.

27 MR. KNOWLTON: We have tried to amortize
28 our own fund but it has just been an impossible thing
29 to achieve because of this income and outgo.

30 COMMISSIONER GIBSON: A few questions on your



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COMMISSIONER GIBSON: A few questions on your



1 response to Bank of Canada policies. Do you watch the
2 bank rate and do you watch the Governor of the bank's
3 statement very closely, are you sensitive to this sort
4 of thing?

5 MR. HODGSON: And the weekly bank statistics.

6 MR. BEAN: The answer was yes all the way
7 across the board.

8 COMMISSIONER GIBSON: What do you think about
9 the bank rate? Have you any ideas along the lines of
10 the kind of variable rate that we had or do you want
11 a fixed type of rate? Do you have feelings about
12 signals?

13 MR. BEAN: I must say we discussed this
14 amongst ourselves not long ago fairly seriously and there
15 was not a wide divergence of opinion in that I think
16 we all felt that it would be very helpful to have what
17 amounts to a definite signal from the Bank of Canada
18 in setting a rate. On the other hand, that may very
19 well result in an abrupt change in the atmosphere whereas
20 the gradual change which has taken place through affecting
21 the treasury bill rate is one which is also very helpful
22 in trying to pick up the trend, but as I say we ended
23 up with a stalemate. I would say we are about equally
24 divided between those who think it is a good thing and
25 those who think it is a bad thing.

26 COMMISSIONER GIBSON: Maybe you would like
27 a combination of the two.

28 MR. HODGSON: I think we try to recognize
29 the problem of the central bank in operating in a free
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1 market but signals cannot be given too far in advance
2 or cannot be too obvious. We try, I think, all of
3 us who have investment responsibilities certainly in
4 our association, have seriously tried to see the signal
5 if there is one and even if we cannot see it to try and
6 see it if it should be there.

7 COMMISSIONER BROWN: Before somebody else
8 sees it.

9 COMMISSIONER GIBSON: In other words, you
10 make your own assessment.

11 MR. HODGSON: That is right. This is a
12 responsibility in the market.



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1 COMMISSIONER GIBSON: This is really the
2 essence of marketing, is it not, that various people
3 should be making their own assessments of what should
4 happen?

5 MR. HODGSON: On the other hand rather
6 than talking about signals I think all of us in the
7 investment community appreciate and desire more and
8 more information on which to make an assessment and
9 if either through administrative problems and others,
10 such information is either withheld or not made available,
11 this makes it extremely difficult for us to operate,
12 or to know how to operate.

13 COMMISSIONER GIBSON: In other words you
14 want such information as you can have but not too
15 many or too definite signals, is that fair?

16 MR. HODGSON: I did not say we did not want
17 signals. What I did say was that we recognize that
18 even if we did want them it is probably unlikely we
19 could get them too far ahead.

20 COMMISSIONER GIBSON: As you said earlier,
21 if everybody believed the signal the response would
22 be so abrupt that it would almost defeat its purpose?

23 MR. HODGSON: Yes, but we do say in our
24 brief that if it were possible we would like to have
25 movement a little more gradual. It seems historical
26 that there is gradual movement on the way down in
27 interest rates, but when they go up it is rather sudden.

28 COMMISSIONER GIBSON: What do you think of
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COMMISSIONER GIBSON: What do you think of the central bank trying to achieve greater cooperation by consultation and persuasion? Does this occur in your



1 experience with trust companies to any extent?

2 MR. BEAN: The central bank has never
3 to my knowledge consulted with the industry in the past.
4 As you suggest, we offer or recommend that there be
5 consultation between, we mentioned I think in the
6 brief, the Minister of Finance. I do not think it
7 makes much difference whether it is he or the Bank
8 of Canada.

9 COMMISSIONER GIBSON: Why the Minister of
10 Finance or the Bank of Canada, or vice versa?

11 MR. BEAN: I think as far as we are concerned
12 it is either one or both.

13 COMMISSIONER GIBSON: You have not any
14 strong feeling about it?

15 MR. BEAN: It might also be the bank. On
16 our volition a few months ago we suggested that it
17 might be advisable to discuss these things occasionally,
18 and some of us did come down to discuss matters in
19 general. It is unusual for people to come down to
20 Ottawa not to ask for something, but we just came down
21 to discuss the time of day with the Bank of Canada
22 and the Minister.

23 COMMISSIONER GIBSON: You did this as an
24 association.

25 MR. BEAN: Yes, as officers of the association
26 we did.

27 COMMISSIONER GIBSON: I see.

28 MR. BEAN: We think it would be a constructive
29 thing to have periodic conversations with groups such as
30 ours to see what we are thinking, and for us to see what



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1 they are thinking.

2 COMMISSIONER GIBSON: Yes.

3 MR. BEAN: I think it is most important
4 for the operation of our whole system that there are
5 more or less continuous consultations at various
6 levels.

7 COMMISSIONER GIBSON: I gather that Mr.
8 Faribault did not altogether agree with this point of
9 view. I was not clear in reading his statement whether
10 it was that he did not think he should consult with
11 the Minister of Finance or with no one in Ottawa, but
12 he said he could not see the need for consulting with
13 the Minister of Finance.

14 MR. FARIBAULT: Personally I would be of
15 the opinion that it ought to be done through the Bank
16 of Canada.

17 COMMISSIONER GIBSON: I see.

18 MR. FARIBAULT: First of all. Secondly,
19 I think it ought not to be done anyway; not to be done
20 and not to be spoken of.

21 COMMISSIONER GIBSON: In other words it
22 should be completely informal?

23 MR. FARIBAULT: That is right.

24 MR. BEAN: I think that is inherent.

25 COMMISSIONER GIBSON: You should know what
26 you are supposed to do and what the Bank of Canada
27 is supposed to do.

28 MR. BEAN: It is all right to do it as long
29 as we do not have to do it.
30



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1 COMMISSIONER GIBSON: Yes.

2 COMMISSIONER LEMAN: Are the trust companies
3 susceptible to moral suasion as they call it?

4 MR. BEAN: You see us all before you, Mr.
5 Leman.

6 MR. HODGSON: This problem merits some
7 consideration; that is, recognizing that there are
8 imperfections that can be explained and problems that
9 can be explained, and whether you use the words
10 "persuasion" or "moral suasion", I think perhaps if
11 these problems were known and the reasons for them
12 made known as well as the recommendations or suggested
13 solutions made known, it would help things. I speak
14 only for my own company at this stage. I am sure
15 the Association would feel the same way, but we would
16 like to hear about such problems and do our best to
17 help correct them in so far as we would be able to do so.

18 COMMISSIONER GIBSON: Have you any comments
19 that you would like to make about the Bank of Canada's
20 operations as they affect the capital market? You
21 have told us that you do not like highly variable
22 interest rates, but that you like to see them move
23 gradually. Are there any suggestions or criticisms
24 you would like to make about the central banks' operations
25 in this light?

26 MR. BEAN: I do not really think so, Mr.
27 Gibson. You are thinking more particularly of their
28 handling of securities and that sort of thing?

29 COMMISSIONER GIBSON: Their marketing operations,
30



COMMISSIONER GIBSON: Yes.

COMMISSIONER LEMAN: Are the trust companies

unacceptable to moral question as they call it?

MR. BEAN: You see as all before you, Mr.

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COMMISSIONER GIBSON: Thank you very much.



1 yes.

2 MR. BEAN: I think basically what we would
3 like to have is a little more information, and like to
4 be kept a little more in the picture about what is going
5 on. It is almost impossible to do in a way, but we
6 as a group, I really do not think, have any great
7 criticism as to how they have operated. One could
8 always use hindsight and say they were wrong, but I
9 do not think that is the sort of comment you want.
10 We have no real suggestion as a group in this regard.

11 COMMISSIONER GIBSON: I asked you the question
12 because you said you would like to have less variable
13 interest rates.

14 MR. HODGSON: We said we would like to have
15 the changes more gradual.

16 COMMISSIONER GIBSON: Have you any views about
17 the division of responsibility between the Bank of Canada
18 and the Department of Finance in respect to handling
19 of the national debt? If you do not just say so.

20 MR. BEAN: We have views about the debt
21 and its management, but not on that particular phase
22 of it.

23 One thing that certainly affects our operation
24 and the banking operation, as well as undoubtedly a
25 great many of us, is the tremendous volume of Canada's
26 savings bonds outstanding. This overlaps a field and
27 creates competition in respect to what we do in the
28 normal course of our business, and it inhibits us
29 certainly from purchasing Government of Canada bonds which
30



MR. BEAN: I think basically what we would

like to have is a little more information, and like to be kept a little more in the picture about what is going on. It is almost impossible to do in a way, but we as a group, I really do not think, have any great criticism as to how they have operated. One could always use hindsight and say they were wrong, but I do not think that is the sort of comment you want. We have no real suggestion as a group in this regard.

COMMISSIONER GIBSON: I asked you the question because you said you would like to have less variable interest rates.

MR. HODGSON: We said we would like to have the changes more gradual.

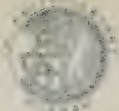
COMMISSIONER GIBSON: Have you any views about the division of responsibility between the Bank of Canada and the Department of Finance in respect to handling of the national debt? If you do not just say so.

MR. BEAN: We have views about the debt and its management, but not on that particular phase of it.

One thing that certainly affects our operation and the banking operation, as well as undoubtedly a great many of us, is the tremendous volume of Canada's savings bonds outstanding. This overlaps a field and creates competition in respect to what we do in the normal course of our business, and it inhibits us certainly from purchasing Government of Canada bonds which



1 we would otherwise purchase with the proceeds. Any person
2 looking at the figures of our system and the banking
3 system will see a tremendous reduction made at the
4 time of Canada savings bonds issues every year, this
5 has been pulled out of the normal savings which would
6 in the long term probably to a large proportion have
7 gone back into the government market anyway. This
8 is putting the country in a very awkward position
9 by effectively monetizing a high portion of its debt
10 and making it payable just as a chequable deposit
11 in a bank or trust company, and doing so at a cost
12 which is undoubtedly very high. I think it is
13 generally our view that this whole policy of Canada
14 savings bonds has become the main way of raising
15 money for the country and certainly as far as cash is
16 concerned the one that has been the main way of financing
17 the expenditures of the country. This should be
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of hand.



1 COMMISSIONER GIBSON: With a view to reducing
2 it?

3 MR. BEAN: With a view to reducing it. Certainly
4 I do not see how we can afford to have more than \$4,
5 billion payable on demand, and it is going to be
6 increasingly costly as time goes on if we stay in an
7 era of high interest rates. It will undoubtedly increase
8 a good deal.

9 MR. HODGSON: It would appear also that the
10 traditional or classical concept of monetary policy
11 in its effectiveness is a potential threat in this sense;
12 in the classical concept of preventing disinvestment
13 into cash assets with such a large amount of near money.

14 COMMISSIONER GIBSON: Have you any specific
15 suggestions about this?

16 MR. BEAN: No, except I think we all feel that
17 the situation can be handled with more recourse to
18 the normal sources of funds for government if they
19 leave this money in the system. That in itself would
20 help to cure it. Of course the real answer to the
21 problem is to reduce spending.

22 MR. HODGSON: We could be facetious and
23 ask for payroll deductions for the purpose of guarantee
24 investment.

25 COMMISSIONER GIBSON: The insurance company
26 suggested to us that the maximum amount allowable to
27 one person in Canada Savings bonds should be reduced.

28 MR. BEAN: That might help the roll-over
29 to some extent.

30 COMMISSIONER GIBSON: Are you critical of the



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COMMISSIONER GIBSON: Are you critical of the



1 whole Canada Savings bond approach or any particular
2 aspect of it?

3 MR. BEAN: I think we are more interested in
4 the management of it. We think that the approach really
5 is something which could be handled, and as it has now
6 reached this stage it might have to be handled through
7 some alternative method.

8 COMMISSIONER MACKINTOSH: Do you not think
9 it has actually increased the amount of savings over
10 the years?

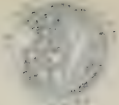
11 MR. BEAN: Yes, I think it probably has,
12 Dr. Mackintosh. I agree with that. I think we would
13 all agree with that.

14 COMMISSIONER MACKINTOSH: Surely the systematic
15 character of it must have tended to increase savings?

16 MR. BEAN: I don't think it has increased
17 the amount of savings any more than they would have
18 been if some system of payroll deductions had been
19 used, as Mr. Hodgson more or less facetiously suggested,
20 for the purchase of G.I.C.'s. It is the widespread
21 use of the principle which has enabled it rather than
22 the particular vehicle.

23 MR. HODGSON: We might view it from our own
24 narrow viewpoint, that from your bond savings, the
25 operation of the Canada Savings bonds policy financed
26 N.H.A. mortgages, and we finance mortgages.

27 COMMISSIONER GIBSON: Have you any other
28 suggestion about the Bank of Canada or the general
29 financial system? Have you any views about the composition
30 of the Bank's board of directors?



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1 MR. HODGSON: We have considered this matter.
2 I believe it is the consensus that we would not recommend
3 a change in the way the Bank's board is established
4 in so far as making it a board of, shall we say,
5 professional finance men. We believe that the Bank
6 of Canada offices and staff are highly competent
7 and knowledgeable in these aspects. We are inclined
8 to believe that the regional representatives being
9 practical men sitting on the Bank's board is correct.
10 We would suggest possibly that the Bank's staff should
11 try as best it can to get about and talk with practical
12 people in the finance segments of the community, and
13 for that matter other segments of the community, in
14 order to sense the practical feeling of the economic
15 community. Our feelings are partly demonstrated in
16 our willingness to meet and discuss, rather than just
17 doing it with the top officers. We would be delighted
18 to see these people from time to time while they are
19 making their rounds, getting the practical aspect of
20 the situation rather than in the cloistered area where
21 they must do a great deal of their work.

22 COMMISSIONER GIBSON: Are you more or less
23 unanimous in this view?

24 MR. BEAN: I think that is the general view,
25 Mr. Gibson, yes.

26 MR. FARIBAULT: Mr. Chairman, may I say
27 as an example of our thinking, that there is quite
28 regular consultation between the Bank of Canada and
29 the chartered banks. I think as far as we are
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1 contact, that the last time we were called to come in
2 was at the time of the conversion when we obviously
3 had an important part to play in that operation. So
4 far as I know, as a whole group, we have never been,
5 shall I say, honoured by visit or consultations that
6 might, we would like to think, have been of some benefit
7 even to the Bank of Canada.

8 COMMISSIONER GIBSON: You do not think you
9 should have a trust company man on the board of the
10 Bank of Canada?

11 MR. FARIBAULT: No, sir, because as Mr.
12 Hodgson just said we do not believe the Bank of Canada
13 should be made up of professional bankers, or even
14 professional money-men. The work should be handled
15 by the professional staff, but we feel that they should
16 keep in closer contact with the practitioners.

17 COMMISSIONER GIBSON: Do you see any gaps
18 in the capital market other than the mortgage market
19 which we have talked about? Is there a small business
20 problem in your mind?

21 MR. BEAN: I think undoubtedly, Mr. Gibson,
22 there is a small business problem which exists and
23 which has been partially remedied by recent legislation.
24 I think that the activities of certain of the companies
25 in forming new mortgage companies has been designed to
26 help some of them in that regard, because they certainly
27 will have within their scope of operations, at least
28 made loans to companies that did not qualify for loans
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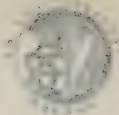
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3 this in your company's business? I refer to companies
4 that come to you from the States and so on that are
5 too small to finance properly.

6 MR. BEAN: Yes, and their credit does not
7 warrant really taking a loan in respect of which you
8 would be taking a guaranty. The operation is
9 such that you really cannot put that sort of money
10 into it. There is a grey area there without question
11 which is difficult to deal with, but I think some of
12 these developments will assist. There are develop-
13 ments, as you are undoubtedly aware, in the risk
14 capital field; small development companies and there
15 are several under formation in Canada now which will
16 undoubtedly help in that area and give some of these
17 companies equity capital which they require. I think
18 there are developments taking place now which will
19 help fill in that gap which, in our experience, certainly
20 has existed.

21 COMMISSIONER GIBSON: Have you seen some
22 companies in your own experience that you could help
23 finance yourself through the taking of a mortgage from
24 a guaranteed fund, into the business, or something of
25 that kind?

26 MR. BEAN: I think all companies occasionally
27 take small loans in that area. We take them very
28 infrequently, because from the standpoint of security
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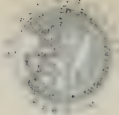
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11 set out now?

12 MR. BEAN: Again speaking personally, from
13 a limited area of operation I think it is sufficient
14 and that its activities are helpful.

15 COMMISSIONER GIBSON: You do not regard it
16 as competing in an area with your own business?

17 MR. BEAN: That is right.

18 MR. HODGSON: It is probably fairer to say,
19 however, that private enterprise appears now to be
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1 COMMISSIONER GIBSON: We have heard of
2 cases of private concerns that were into this field,
3 and it suggests an overlapping.

4 MR. HODGSON: I might assume that they were
5 established before private enterprises in the field.
6 The question might be whether or not private enterprise
7 does come in to more completely fill the gap, whether
8 or not the I.D.B. would withdraw or try to fill the
9 narrower still unfilled gap.

10 COMMISSIONER GIBSON: I take it you feel that
11 expansion in the activities is a desirable thing, this
12 expansion that has occurred in the last 18 months?

13 MR. HODGSON: Yes, I would hope that if the
14 need was there, and from looking at the statistics
15 they have increased their loans very substantially and
16 I would like to feel, I think, that if private enterprise
17 did come in and did satisfactorily fill this gap that
18 there wouldn't be competition, but I.D.B. might consider
19 that it has been adequately filled and reduce its
20 operations, recognizing that it would accomplish pion-
21 eering in this field.

22 COMMISSIONER GIBSON: How about the securities
23 exchange regulations; what are your Association's views
24 as to this subject; in favour of uniform legislation
25 across the country, a national exchange, a national
26 commission?

27 MR. HODGSON: We have discussed this point,
28 Mr. Gibson. We would like to feel that whether there
29 was a federal securities commission or a consistent
30 legislation in the provinces is really not an important

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6 investors.

7 There are probably also certain things in
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12 When a new issue is brought to market, a
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15 and the corporate issues principally -- the investors
16 are very frequently made aware of this issue on the
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20 Now, this sort of dynamic atmosphere may be
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23 Professional investors such as ourselves can work and
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2 who had an opportunity to consider might buy in the
3 initial offering and we might be cut down in our
4 orders. However, for the general financial community
5 we think something of that sort would be desirable.

6 MR. NELSON: I think what you are really
7 suggesting is that the prospectus be available before-
8 hand so that the securities can be examined.

9 COMMISSIONER BROWN: You did mention municipal
10 bonds?

11 MR. HODGSON: Yes.

12 COMMISSIONER BROWN: And trust companies as
13 a rule, and looking at them from the West Coast particularly,
14 seem to confine their activities in municipal fields
15 only to the large municipalities; is this because
16 of the difficulties of maintaining municipal departments
17 to keep records and figures up to date?

18 MR. HODGSON: Well, the municipal market
19 on the West Coast has changed in recent years and now ---

20 COMMISSIONER BROWN: I merely used the West
21 Coast as an example; we have heard this all the way
22 across the country, that the smaller and less well
23 known municipalities have difficulty in finding a
24 market for their securities in the larger centres.

25 MR. BEAN: Certainly I think there is an
26 element in that which we require which they haven't
27 got. I think that most companies investing in
28 municipalities want to achieve a certain amount of
29 rapidity and marketability, and most companies buying
30 municipals -- I know that our company does, as you know,



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8 municipality and it is one of those cases where I think
9 the market has decided that they are not offering a
10 high enough price and at a price which they probably
11 could be sold.

12 COMMISSIONER BROWN: A life company suggested
13 the correct use of the pooling and provincial guarantee.

14 MR. BEAN: That is in the case of Alberta.

15 MR. HODGSON: There is another technique
16 and this would require going back to a set of circumstances
17 which were changed for certain obvious reasons. Some
18 municipalities sell serial bonds.

19 COMMISSIONER BROWN: That is statutory.

20 MR. HODGSON: Yes, but it was brought about
21 for obvious reasons. Now, the same condition could
22 exist with sinking fund provisions and pension funds,
23 for example, who are interested in a long-term point
24 of view and are more reluctant to buy serial debentures
25 than they are to buy 20-year term.

26 It might be possible that municipalities
27 might find it easier to sell their obligations
28 if they were back on the long period, such as the
29 larger municipalities such as Metropolitan Toronto,
30 and so on. The trust companies would be delighted to



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1 offer their services to all sinking funds!

2 COMMISSIONER GIBSON: On the general features
3 of the broad tax law, has your Association any comments
4 to make? I am thinking particularly of the effects of
5 20 per cent tax credit and the effect of the difference
6 in treatment in payments from the tax point of view.
7 Have you any comments you wish to make about these
8 matters?

9 MR. BEAN: I don't really think as an
10 Association we have anything, Mr. Gibson, especially
11 in this area.

12 COMMISSIONER GIBSON: These are major features
13 of our tax system and I wondered if you were satisfied?

14 MR. HODGSON: I might make a personal observation
15 which is not the Association's, and this more or less
16 goes back to a point we were discussing earlier about
17 common stock, the availability of it.

18 Now, the 20 per cent tax credit on common
19 stock dividends presumably should increase the desirability
20 of holding common stock and therefore the demand should
21 rise. From an investment point of view, and to assist
22 the professional investors, they are constantly
23 concerned about the price of securities being
24 affected by the scarcity value rather than the real
25 value, and it does seem slightly incongruous that
26 the demand side should be given the impetus and no
27 countervailing attention given to the supply side. That
28 is the point I would like to make.

29 COMMISSIONER GIBSON: You do think looking ahead
30 that there is a potential scarcity of good common stock?



offer their services to all shareholders.

Commissioner Gibson: The Board of Directors

of the company has the honor to acknowledge the receipt of your letter of the 10th inst.

and in reply to inform you that the same has been forwarded to the proper authorities.

20 per cent tax credit and the effect of the difference

in treatment in payments from the tax point of view.

Have you any comments you wish to make about these

MR. BLANK: I don't really think as an

Association we have anything, Mr. Gibson, especially

in this area.

Commissioner Gibson: I am glad to hear that.

of our tax system and I wondered if you were satisfied?

MR. HODGSON: I might make a personal observation

which is not the Association's, and this more or less

goes back to a point we were discussing earlier about

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Now, the 20 percent tax credit on common

stock, I think it is a very important point and one that

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the professional investors, they are constantly

concerned about the price of securities being

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COMMISSIONER GIBSON: You do think looking ahead

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1 MR. HODGSON: Well, our tax laws make it
2 such that except under certain circumstances it is
3 not economically desirable for a corporation to
4 issue stock; I mean, it is costly to issue stock
5 vis-a-vis debt.

6 COMMISSIONER GIBSON: You have a certain
7 contrast in your own operations, and when you are
8 looking after an estate of an individual a 20 per
9 cent tax credit is a matter of importance, and when
10 you have a fund ---

11 MR. HODGSON: There is no advantage.

12 COMMISSIONER GIBSON: Well, there is this
13 sort of contrast and I was wondering if you had any
14 views on it in the Association?

15 MR. BEAN: Nothing that we have really discussed
16 at any length at all as an Association, and anything
17 we would say would be a purely personal observation.

18 COMMISSIONER BROWN: I have two questions
19 here on reserves. You touched yesterday on the $12\frac{1}{2}$
20 times multiplier that you use in the liability of
21 capital reserves and you brought out quite clearly
22 that at the moment you were only using about an
23 8 times multiplier.

24 What is the thinking behind your request
25 or suggestion that this should be increased to 15 times?

26 MR. BEAN: May I suggest that we are back
27 to our problems on averages again because, as Mr.
28 Pembroke pointed out ---

29 COMMISSIONER BROWN: Does this mean
30 that some of the companies ----



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MR. HEAN: May I suggest that we are back to our problems on averages again because, as Mr. Resbrooke pointed out ---

COMMISSIONER BROWN: Does this mean that some of the companies ---

1 MR. BEAN: Some are on the line, I would say,
2 at the moment, maybe two or three, and while I think
3 we should be -- in most cases that has been because
4 of the relationship of their trust and deposit and
5 guarantee account, so certainly I think there are
6 a number of companies who are very close to the $12\frac{1}{2}$
7 times at the moment again.

8 COMMISSIONER BROWN: If the $12\frac{1}{2}$ was a good
9 one, what is the thinking behind the increasing
10 it to 15? You have the alternative of increasing
11 capital.

12 MR. BEAN: We didn't think it was a good
13 one at the time it was made $12\frac{1}{2}$ and we offered 15, and
14 it was one of those unsatisfactory compromises at the
15 time, so that I wouldn't agree with you that the $12\frac{1}{2}$
16 was a good one.

17 COMMISSIONER BROWN: $12\frac{1}{2}$ gives a margin of
18 8.

19 MR. BEAN: Yes.

20 COMMISSIONER BROWN: And 15 would give a margin
21 of about 6.

22 MR. BEAN: It is a very slight difference.
23 Certainly looking at other financial industries and
24 other people in the financial industry, 15 is not
25 an unusual or an inordinately high multiplier to use.

26 There are a good many times when we have
27 been thinking about the banking system and there have
28 been many times when it has been considerably higher
29 than that and it is certainly higher than that in
30 a great many parts of the United States, and that sort



MR. BEAN: Some are on the line, I would say.

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1 of thing, but in our type of application and the type
2 of restrictions, the rules for the type of investment
3 which we can make, it has been felt by the companies
4 that 15 would be a more reasonable approach to it.
5 We can't define it -- I agree with you that there is
6 no way you can say that 14-5/8 is wrong and that
7 15 is right, but judging from the over-all picture
8 15 seems to be a not unreasonable figure to work on.

9 COMMISSIONER BROWN: On the opposite side
10 of this argument, as it were, it is your suggestion
11 that your reserves on mortgages that you are permitted
12 are too low, but if the reserves on mortgages are too
13 low, how can you argue for a larger multiplier on this
14 other reserve factor?

15 MR. BEAN: As you can see from looking at the
16 request for reserves for mortgages, it is a long-term
17 proposition we are looking at; the market is increasing
18 and we couldn't be prevented from earning earnings
19 to set this thing up without incurring some of the
20 problems that you already discussed, and so on, and
21 to build them up in that way through earning power.
22 Admittedly it does seem somewhat inconsistent to us
23 that there should be a different relationship between
24 capital reserves and total reserves and that some of
25 the assets could be used more heavily from year to
26 year. I think that is the reason for it, we don't
27 think ---

28 COMMISSIONER BROWN: This gets down to
29 the real problem ---

30 MR. BEAN: It is an operating problem as against



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1 the other.

2 COMMISSIONER BROWN: Wouldn't it be more a --
3 you have asked for an increase on two bases; an increased
4 rate of accumulation and an increased percentage of
5 accumulation.

6 MR. BEAN: Right.

7 COMMISSIONER BROWN: Would it not be more
8 practical to look at an increased rate of accumulation
9 to get up to the present basis? I think that would
10 be more logical in connection with your other requests
11 about the higher multiplier.

12 MR. BEAN: It might very well be. Again,
13 one of the reason why it was done the way it was --
14 this is the figure which was suggested to the Department
15 of Finance a number of years ago when we first established
16 this principle, and it took a great many years to
17 establish initially anyway, but at that time it was
18 based upon the figures and it was administered with
19 the reserves in the area of from 5 to 6 per cent, or
20 about what we thought would be required, and then that
21 was cut back and it is suggested in the brief that
22 the present rate will not reach 3 per cent for a good
23 many years and I think as a matter of policy it might
24 have been well to have asked for an increase in the
25 rate of increase rather than an absolute, but it was
26 felt that you were enquiring as to what we thought
27 should be done and that is what we thought should be
28 done as a matter of primary proposals with the Department,
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1 COMMISSIONER BROWN: Again you get down to
2 this point of why are certain figures good figures?

3 MR. BEAN: Well, that figure was one which
4 was worked out from the experience of the companies
5 over a long period. Admittedly there have been very
6 few losses in recent years, but, as was discussed
7 this morning, there will also be periods in the
8 future where we will experience losses, so all we
9 need do is look at the past and try to set up a
10 reserve which would be suitable to the circumstances
11 which might repeat themselves.

12 We also have a greater problem now than
13 before in connection with the higher ratio of loans
14 to value and a great many factors which have increased
15 the risk on mortgages than even in the period of the
16 thirties.

17 COMMISSIONER BROWN: But you are on a
18 different basis now.

19 MR. BEAN: Which we hope will help.
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1 MR. HODGSON: I could probably make a general
2 answer to that question which is much like, I suppose,
3 Samuel Johnson who is reported to have said, when
4 asked if he wanted more wages what would he do after
5 that, that he would still want more. I think the
6 point is that as the economy matures and as the financial
7 institutions mature, historically there has been a
8 general tendency to liberalize. This has been an
9 historical fact not only with respect to our company:
10 Why did we do from 10 to 12½? I think, basically,
11 as the industry matures and the financial economy
12 matures the professional aspect of conducting the
13 business matures. This is the general trend toward
14 this kind of thing rather than say, why is 12½ good?
15 Why is 15 good. The reverse answer could be made:
16 Why didn't we stay at 10, and why did we move from
17 something before 10? I think there is a general trend
18 toward that in the gradual maturity of financial
19 institutions.

20 THE CHAIRMAN: Gentlemen, we wish to thank
21 you very much for your contribution to this very long
22 discussion. I am sure I am speaking for all my
23 colleagues when I say that we have learned a very
24 great deal as the result of this discussion, and that,
25 combined with the brief, has in our view been a very
26 great contribution indeed to the work of this Commission.
27 We find in our travels that the discussions following
28 the briefs are very valuable, and this has been no
29 exception.

30 I would also wish to mention the brief of



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1 Mr. Faribault which was dealt with along the brief
2 of the Trust Companies Association, and we recognize
3 that in part that was a dissent from the main brief,
4 but we have received great assistance also from the
5 viewpoints expressed by Mr. Faribault on behalf of
6 The General Trust Company of Canada.

7 We appreciate your attendance here in the
8 last two days, and thank you once again.

9 MR. BEAN: Mr. Chairman, speaking on behalf
10 of those of us here from the Association I can assure
11 you we have very greatly appreciated the opportunity
12 of appearing before you in presenting this brief
13 and taking part in this discussion, and we can only
14 hope we have been able to answer some of the questions
15 about our industry. We appreciate your forbearance
16 in the questioning and we certainly wish you very well
17 in this most important task you have undertaken.

18 THE CHAIRMAN: Thank you very much. We will
19 now adjourn until 8.45 tomorrow morning.

20 --- Adjournment.
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Royal Commission on Banking and Finance

The Trust Companies Association of Canada

Hearings
held at

OTTAWA

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S U M M A R Y

Conclusions and Recommendations

1. The Trust Companies Association of Canada has no radical or controversial recommendations to make as it believes that fundamentally the country's financial system is strong and does not require major alteration to make its processes more efficient.
2. The Association is of the opinion that the present financial structure has served the nation well in the postwar expansion of the economy; and that the various financial institutions have shown themselves to be possessed of qualities of resourcefulness and flexibility in meeting the demands placed upon them. This can be expected to continue in the future.
3. Each type of financial intermediary has a specialized role with very little overlapping of function, and it is submitted that the virtues of specialization be retained. The trust companies for their part have no desire to add to their present functions.
4. The Association is a supporter of maximum freedom in economic life. It would regard with disfavour the imposition of restrictions and controls on financial intermediaries. As an example there have been suggestions that trust companies and other non-bank financial institutions are now of sufficient significance and weight in the economy to merit more direct control by the Bank of Canada in the same manner as the chartered banks. Direct control of the operations of the chartered banks is clearly a necessary objective of credit policy. That control has an indirect effect on trust companies --

as it has on other financial institutions. But the operations of the trust companies, which are entirely different from those of the chartered banks which invoke that control, do not call for direct control by the authorities. There is no evidence available to show that the introduction of more control is necessary in the interest of monetary policy.

5. The Association believes that the following changes in the legal framework within which they operate would enable its members to serve the economy better:

(a) To allow clients the benefit of some hedge against inflation, trustees should be allowed greater latitude under provincial laws to invest in corporation obligations and equity.

(b) Laws limiting the expansion of trust company guaranteed liabilities should be amended to allow the companies to maintain a ratio of fifteen to one between their guaranteed liabilities and paid-up capital and reserves.

(c) It would also be helpful if all the legislation governing the investment of guaranteed funds were made uniform throughout the country, along the lines of the most liberal of the current statutes.

(d) A similar uniformity could be introduced with advantage to the laws governing the administrative practices and reporting functions of trust companies.

6. The trust companies consider that they do not

1 enjoy equal treatment in the payment of taxes. Other
2 financial institutions are afforded treatment which
3 enables them to accumulate reserves more readily. To
4 this end, therefore, the Association recommends
5 amendment of the Income Tax Act to allow trust companies
6 to increase their reserves at a rate more consistent
7 with safety.

8 7. The companies would welcome the establishment
9 of terms upon which they could obtain emergency loans
10 from the Central Mortgage and Housing Corporation as
11 a lender of last resort for the industry in the event
12 of a financial hiatus similar to 1929.

13 8. The Association was asked to comment upon the
14 clearing system and upon deposit insurance. The trust
15 companies at present have a satisfactory arrangement
16 with the chartered banks for clearing their cheques.
17 It is essential to their operations that such access
18 to the clearing system continue to be available on an
19 equitable basis.

20 9. There is basic difference in the financial
21 organizations accepting deposits in Canada from those
22 in the United States which operate under systems of
23 deposit insurance. It is a difference which makes such
24 an innovation unnecessary for the protection of their
25 depositors.

26 10. The Association recommends a legal requirement
27 for filing reports on trustee pension funds at regular
28 intervals with the Department of Revenue for Canada.

29 considers that the Minister might be empowered to
30 de-register plans which are not deemed sound.

1 The Association recommends against any
2 further investment regulation for pension funds and would
3 modify the existing restriction on income from foreign
4 investment.

5 11. The trust companies, as keepers and investors
6 of a large part of the nation's savings, would like to
7 see a new regard for the purchasing power of the dollar.
8 This has not received sufficient attention for almost
9 twenty years, and is glibly assumed to be an inevitable
10 casualty in the march towards greater prosperity and
11 other economic goals. The Association thinks that
12 more thought must be devoted to the social and economic
13 implications of the steady erosion in the dollar's
14 purchasing power.

15 12. In view of the over-all importance of the
16 proper functioning of monetary policy and as an earnest
17 of their willingness to co-operate with the Minister of
18 Finance, the Association proposes that he be furnished
19 on a regular basis with any information thought
20 necessary to the proper formulation of monetary policy
21 and that there be regular consultation between its
22 representatives and the Minister.

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BRIEF OF THE TRUST COMPANIES ASSOCIATION
OF CANADA

1. The Trust Companies Association of Canada represents twenty-eight companies administering assets of approximately \$9.7 billion made up of \$185.6 million in company funds, \$1,419.0 million on guaranteed account and \$8,142.9 million in estates, trusts and agencies. The member companies are substantially all of those doing a general trust business in Canada.

2. The Canadian trust company is a unique type of institution which has no counterpart in either the United States or the United Kingdom. The activities of trust companies are governed by their statutes of incorporation (federal or provincial) and by the trust company legislation of each province in which they are licensed to do business. Though some of this legislation deals with the loan companies as well as trust companies, the two are completely different types of organizations.

3. Trust companies are not carbon copies of one another; each company concentrates on doing the type of business it thinks most suitable. For example, one large company does not accept deposits from the public and even a cursory comparison of assets under administration reveals wide variations in the practices

Para 1. - The Association and its activities are fully described in 1.63 to 1.72 of Appendix 1.

Para 2.- See 1.09 and 1.26

Para 3. - See 3.05

Para 4. - See 1.11 to 1.18

1 of individual companies. Some stress guaranteed funds,
2 some place greater emphasis on the estates, trusts and
3 agency sector, and others on corporate trust services.
4 There is also a difference in scale of activity in that
5 some companies have extensive branch organizations while
6 others have only a single office. Trust company operat-
7 ions are far from being homogeneous; diversity is the
8 rule.

9 4. The functions of the trust company --
10 individual trusteeship (estates, etc.), collective
11 trusteeship (investment intermediary) and corporate
12 trusteeship -- have a basic unity. It underlies the
13 trust relationship which is common to them all. All
14 these functions involve the protection of savings -
15 personal, family or corporate -- whether in individual
16 trusts, in collective trusts, or in any other form.
17 It is the function of the trust company to preserve this
18 capital and use it productively. The provision of
19 investment management skills is therefore a basic element
20 of trust company services. The flexibility and enterprise
21 of these institutions with their unique trustee concept
22 make a valuable contribution to Canada's financial
23 system.

Economic Policy

26 5. The Association would like first of all to
27 express its basic views on general economic policy, and
28 particularly the extent to which financial and monetary
29 measures can support over-all economic objectives. It
30 is felt that the aim of economic policy should be the

1 promotion of sufficient growth to maintain a high level
2 of employment within a framework of free institutions.
3 Secondary only to this main objective should be the
4 preservation of the purchasing power of the dollar, the
5 provision of adequate social welfare standards and the
6 strengthening of Canada as a nation in all aspects
7 of human endeavour. The Association believes those
8 objectives could be most surely achieved in an economic
9 community where decisions on production and consumption
10 are made by individual producers and consumers operating
11 in free markets.

12 6. Monetary policy must serve these all-encompassing
13 objectives; particularly it should complement stabil-
14 ization policies to try to minimize fluctuations in
15 the economy. It is our opinion that monetary policy
16 cannot by itself successfully accomplish this purpose.
17 For instance it is generally agreed that monetary
18 policy is more efficacious in choking a boom than in
19 generating recovery from a recession, but it is without
20 doubt a necessary and even indispensable control
21 technique.

22 7. The main attraction of monetary policy in
23 contrast to fiscal policy is that it is a general
24 atmospheric control: it obviates the necessity of more
25 direct interference with the workings of the economic
26 process in that its impact on events is made through
27 the indirect effects of changes in the money supply
28 and through changes in interest rates. To this extent
29 the degree of success attained is directly dependent
30 on the efficiency of the capital market, especially on

1 the response of its individual sectors to changes in the
2 structure of interest rates. For this reason the trust
3 companies advocate maximum freedom in the capital market.

4 8. The most difficult aspect of monetary policy
5 is its proper timing; with the advantage of hindsight
6 it is possible to question the wisdom of monetary
7 policies pursued at certain periods since the end of
8 the war. For instance, there has been the comparatively
9 recent controversy as to whether monetary policy was
10 pursuing the right objectives in the years 1958-59.

11 Stabilization is not the only goal of monetary policy
12 since account must be taken of its effect on the bond
13 market, the exchange rate, and the marketing and manage-
14 ment of government debt. This only makes the art of
15 monetary management more difficult, and though it is
16 very far from being an exact science, it is nevertheless
17 one of the best tools we possess for general economic
18 management.

19 9. The question has been raised as to whether
20 monetary policy has had sufficient impact on the
21 operations of non-bank financial institutions. So far
22 as trust companies are concerned, such evidence as is
23 available supports the conclusion that their operations
24 have responded to changes in monetary policy. Though
25 the evidence is not fully conclusive, it does confirm
26 that the companies have been in step with official
27 policy. Since monetary control is not meant to be a
28 delicate and exact instrument, a confirmation of a parallel
29 movement is all that might be expected in any case.
30 The trust companies want to do everything possible to



1 make monetary policy more efficient and their proposals
2 in this regard are set out in paragraph 42.

3 10. In their role of investment intermediaries,
4 trust companies are also vitally concerned with the level
5 and course of interest rates. The problems involved
6 in attracting and managing savings have multiplied of
7 late owing to the trend in the mortgage market towards
8 long term obligations, so that a substantial proportion
9 of investments are now made long term despite the
10 predominantly short term nature of trust company
11 liabilities. Abrupt and wide changes in interest rates
12 made necessary by sudden alterations in government
13 policy could have serious repercussions in the industry.
14 Indeed they could leave the industry in an exposed
15 position and the recent move to a pegged exchange rate
16 increases the possibility of this. The companies are
17 therefore concerned that such changes in interest rates
18 as are necessary do not preclude easy and gradual
19 adjustment to the new policy by all financial
20 institutions.

21 11. The trust companies as gatherers and managers
22 of savings are most concerned on behalf of all their
23 clients in the maintenance of the dollar's purchasing
24 power. The existence of even mild inflation can erode
25 the value of savings and, if the process is continuous,
26 can ensure that in the long run there will be no saving.
27 Since all trust company operations relate to savings in

28
29

Para. 9. - This matter is examined in Appendix 2, >
("The Role of the Trust and loan Companies
in the Canadian Economy") Part II C.

30 Para. 10 - See 3.47

1 some way, the success of monetary policy in stabilizing
2 the dollar's buying power is very significant for trust
3 company clients and for all savers.

4 12. For this reason the inflation during the postwar
5 years which has carried the official Consumer Price Index
6 from a level of 100 in 1949 to 129.8 in December, 1961
7 demands comment. Even allowing for all the imperfections
8 and inconsistencies inherent in the Index, there is no
9 doubt that the trend of prices has seriously reduced
10 the living standards of people dependent on fixed incomes.
11 Measured by the Index, the value of the dollar has fallen
12 to 77 cents since 1949. Since 1959, inflationary conditions
13 have been less evident and the upward movement of the
14 Index has been less steep.

15 13. It is, however, difficult to believe that
16 some measure of inflation will not re-appear,
17 particularly in view of the spending propensities of
18 governments and the current attitude towards deficit
19 financing. We seem to be in an era in which both are
20 becoming more widely accepted, if not encouraged. If
21 the economy is in an era of long term inflation, grave
22 problems are posed for trustees whose freedom to hedge
23 against inflation is restricted by legislation and by
24 the limitations imposed by the trust relationship.
25 At the same time they are charged with the protection
26 of savings, which the presence of inflation makes
27 impossible to achieve. This is the dilemma of trustees;
28 inflation effectively destroys the value of savings

without their being able to prescribe preventive medicine, thus making it difficult for them to perform their function of preserving savings. The companies therefore urge a broadening of the relevant legislation to help trustees solve this problem, as proposed in paragraph 27.

The Capital Market

14. The trust companies are prominent and growing participants in the capital market and with the trend towards the institutionalization of savings they have every expectation of becoming more influential. One of the most important functions of the capital market and the one which concerns the trust companies most is that of attracting and allocating funds for investment by means of the structure of interest rates. This is best accomplished in a completely free capital market. There are, however, many imperfections in to-day's capital market, two examples being the NHA interest rate, which is not a free rate, and the ceiling of 6 per cent imposed on chartered bank loans by the Bank Act.

15. The trust companies believe the present imperfections in the capital market should not be increased or compounded. They think the welfare of the nation would best be fostered by permitting interest rates to exercise free and full influence upon the policies and practices of all institutions engaged in the attraction and allocation of savings. Saving can best be encouraged through the free competition of a variety of investment intermediaries offering the public differing claims and operating in their specialized



1 areas of the capital market. The companies believe that
2 the efficiency of the money market and the speed at
3 which it has become an integral part of the Canadian
4 financial scene, is due to the fact that it is a free
5 market with no deliberate imperfections imposed on it
6 by official sources.

7 16. A different type of imperfection has been
8 introduced into the capital market by the provisions
9 of the laws and regulations governing the operation
10 of trust companies. For example, trustees are narrowly
11 restricted as to their investments. This frequently
12 affects the trust companies in their investing power on
13 behalf of individual estates and trusts. The
14 Association believes the laws governing trustee invest-
15 ments should be broadened as outlined in paragraph 27.

16 17. In addition the investment of capital and
17 guaranteed funds is similarly circumscribed by legislation.
18 The Association's view is that the most liberal examples
19 of such legislation do not constitute a restraint of
20 any importance. In fact the opinion has been expressed
21 that if those legislative safeguards were removed,
22 guaranteed investment portfolios would not change to
23 a significant extent. The Association therefore believes
24 that the existing regulation should be modified as
25 referred to in paragraph 29.

26
27 Para. 14 - A full description of the practices followed
28 by trust companies in the attraction and
29 investment of funds is to be found in Appendix
30 1, Section 3 and a discussion of the function
and imperfections of the present capital market
in Canada is contained in Appendix 2, Part I E.

30 Para. 16 - See 2.31 and 2.32

18. The Association notes that the tremendous growth of the Canadian economy since the end of the war could not have been accomplished without the backing of a fundamentally healthy and extremely flexible financial system. The most noteworthy addition to the financial structure in this period has been the development of the money market, which has added strength and viability to the complex of monetary institutions. The Association is confident that the existing institutions in the financial system can initiate and nurture new techniques and practices to serve the needs of the economy with the minimum of official intervention.

Secondary Mortgage Market

19. A secondary mortgage market for National Housing Act loans in sizable blocks has been developing gradually in Canada through their sale by Central Mortgage and Housing Corporation and other sellers. Because of the extra flexibility and room to manoeuvre which a secondary market affords, it is to be hoped that this new departure will expand and prosper. It is difficult, however, in view of the massive administrative problems involved to see how this secondary market could be extended to cater to the interests of the small investor by making available small parcels of mortgages on a retail basis. The small investor would probably be better served by participating in mortgages through an investment intermediary.

Para. 17 - See 3.16 to 3.19

Para. 19 - See 3.52

Para. 20 - See 3.49 to 3.51 and 3.55

20. The Trust companies held \$452 million of mortgages for their capital and guaranteed account at the end of 1960, representing 37 per cent of the account. With holdings of this magnitude, mostly in conventional mortgages, the companies have an obvious need for a lender of last resort. While there has been a long period without a financial crisis of 1929 dimensions, it is advisable that the basis on which loans could be obtained against outstanding mortgages be established well in advance of the possible re-appearance of similar circumstances.

21. It would therefore be helpful to the trust industry if the terms on which it could obtain emergency loans from the Central Mortgage and Housing Corporation could be established. At the moment this is the only lender of last resort available to the industry.

Trust Companies and the Chartered Bank Clearing System

22. The trust companies present use of the chartered banks' clearing system is of key significance in the operation of their business. At present each trust company has an arrangement with one or more of the chartered banks to clear its cheques through the banks's clearing system in the various centres across the country, and in return for this service the banks charge the trust companies standard rates.

23. Though the chartered banks run the clearing system, the trust companies have had access to it and this arrangement has worked well. It is essential for the present and future conduct of trust company operations

Para. 22 - See 3.37 to 3.41

Para. 25 - This point is noticed in 3.19



1 that such access to the clearing system continue to be
2 available on an equitable basis.

3 Underwriting

4 24. Modern economies are economies of specialization
5 and the financial sector of the Canadian economy has no
6 less dependence on specialist functions. For this
7 fundamental reason we do not believe that trust companies
8 could facilitate the distribution of new capital issues
9 by participation in underwriting. There are existing
10 institutions in the new issue market whose organization,
11 experience and function make them well fitted for the
12 task of underwriting in all its various facets. It is
13 felt that the intrusion of trust companies in this
14 field would not increase the efficiency of the capital
15 market, and that underwriting is best left to the
16 specialists.

17 Deposit Insurance

18 25. We have been asked to comment on the advisability
19 of introducing into Canada a system of deposit insurance
20 similar to those in operation in the United States.
21 There is a basic difference between the institutions
22 whose deposits are insured under the U.S. systems and
23 their counterpart institutions which accept deposits
24 in Canada. In our view, this difference makes the
25 suggested innovation unnecessary to protect the
26 depositors of the Canadian organizations. Admittedly
27 one merit of the system is that it may achieve uniformity
28 in regulation where regulation is deemed desirable.

29 Changes in the Law

30 26. We recommend the following changes in the laws



1 which affect trust company operations, in the belief that
2 such adjustments would enable us to serve the economy
3 to greater advantage.

4 27. It would be beneficial to the economy and in
5 line with current investment thinking to permit invest-
6 ment by trustees for estates and trusts in corporation
7 obligations and shares subject to earnings tests with the
8 proviso that not more than 35 per cent of a trust
9 could be so invested. It is noteworthy that the trustee
10 law of Nova Scotia has established a precedent in this
11 direction by permitting equity investment up to 15 per
12 cent of the value of the trust.

13 28. Provincial laws which limit guaranteed
14 liabilities to a maximum ratio to paid up capital and
15 reserves should be liberalized. We also consider that
16 the twelve and a half times ratio of the Federal statute
17 could, without prejudice to the security of guaranteed
18 funds, be increased to a fifteen times basis. This has
19 been the opinion of the industry for some years.

20 29. It would also be advantageous if legislation
21 in all the provinces regulating the investment of capital
22 and guaranteed funds could be brought into line with
23 the most liberal legislation at present in force.

24 30. We consider it highly desirable that the law
25 of each province provide for the uniform regulation of
26 trust companies with respect to reports, segregation
27 and earmarking of trust assets, audit and inspection

28 in accordance with the standard established by the most

29 Para. 27 - See 2.32

30 Para. 28 - See 3.20

Para. 29 - See 3.16 to 3.19

Para. 30 - See 3.14 and 3.19

1 comprehensive existing legislation on this subject and
2 the administration thereunder.

3 31. The trust companies are guardians of a sizable
4 part of the savings of the nation and naturally they are
5 very concerned about the safety of those funds. They
6 are particularly perturbed at their inability under the
7 present formula governing the accumulation of reserves
8 against conventional mortgage investments, to increase
9 those reserves at a desirable rate. It is not expected
10 that economic conditions will change to make sizable
11 losses probable but at the same time the policies of
12 financial institutions should lean to the conservative,
13 and it is believed that a reserve of 6 per cent would
14 be reasonable. This level could not be attained under
15 the present regulations for many years, and it is there-
16 fore the opinion of the trust companies that the maximum
17 of reserves allowed under Section 85G of the Income
18 Tax Act should be increased from 3 per cent to 6 per
19 cent and the rate of accumulation remain at 1/12 of
20 this amount per year which would have the effect of
21 increasing it from $\frac{1}{4}$ of 1 per cent to $\frac{1}{2}$ of 1 per cent
22 of the mortgage account per year.

23 32. We would like to point out that other organizations
24 competing for the savings of the public such as chartered
25 banks, life insurance companies, and credit unions
26 receive more favourable tax treatment than do the trust
27 companies. This enables them to accumulate reserves
28 much more easily. On a basis of equity, therefore, it

29 seems eminently reasonable that comparable tax treatment

30 Para. 31 - See 3.58 to 3.63

Para. 32 - See Appendix 2, Part I F.



1 be accorded trust companies.

2 Pension Funds

3 33. On the question of pension fund supervision
4 our opinion is that so long as the provision of employee
5 pension benefits remains a matter for voluntary action,
6 regulation of the administration of trustee pension
7 fund activities should involve a requirement for
8 reporting to the Department of National Revenue. Reporting
9 would necessitate filing a financial statement and an
10 actuarial report at regular intervals, not less than
11 every three years. Reporting need not include
12 certification or measurement of the so-called "solvency
13 of plans", since standards of solvency involve great
14 variations depending on the funding principle and the
15 actuarial assumptions adopted. Here the professional
16 report of an actuary is much more valuable than a
17 solvency test by a statutory formula. In addition the
18 Minister might be empowered under certain conditions
19 to de-register a plan.

20 34. The investment regulations governing registered
21 pension plans under the Canadian Income Tax Act are
22 very liberal, but a strong case can be made for raising
23 of the restriction limiting any plan's income from
24 foreign securities to ten per cent of total income.
25 As a safety factor pension funds ought to be permitted
26 the broadest diversification of holdings possible and
27 it is questionable whether the present regulation,
28 weighted in favour of Canadian securities, allows

29 Para. 33 - See 2.60 to 2.61

30 Para. 34 - See 2.58, 2.59 and 2.62

Para. 35 - See 2.63

1 sufficient scope for this to be achieved. Proper
2 diversification involves participation in a broader
3 range of industries and in a wider selection of individual
4 companies than are presently available in Canada.

5 35. The trust companies also consider it regrettable
6 that the functions of insurance companies and trust
7 companies as investment intermediaries in this field
8 have not remained specialized and distinct. The 1961
9 amendment to the Canadian and British Insurance Companies
10 Act has given insurance companies the right to administer
11 pension contributions in much the same manner as trustee
12 pension funds. The insurance element in some of the
13 contracts is purely nominal or peripherally related.
14 This seems to be a reversal of the successful and customary
15 specialization of function which has hitherto marked
16 the operation of Canadian investment intermediaries,
17 and which the trust companies would not like to have
18 further diluted.

19 Trust Companies and the Monetary Control
20 System

21 36. There has been a greater awareness in Canada
22 in recent years of the growth and the extension of
23 influence of financial organizations other than the
24 chartered banks. A point of concern aroused by this
25 development seems to be that those institutions including
26 the trust companies are now of such weight and importance
27 as to warrant closer control by the Bank of Canada.
28 In particular, the increased use of monetary policy
29 as a method of exerting control over the course of
30 general economic activity has raised the question as to



1 whether the effectiveness of monetary policy has been
2 vitiated by the lack of direct central bank control over
3 the operations of those institutions. It has been
4 suggested that such control be effected by the setting
5 up of some system of reserve requirements, such as the
6 chartered banks keep with the Bank of Canada.

7 37. The Bank of Canada controls the supply of money
8 by its power to determine the cash reserves of the
9 chartered banks and by its ability to vary interest rates;
10 the chartered banks cannot circumvent this system as they
11 are required to hold cash reserves with the central
12 bank equal to at least 8 per cent of their total deposits.
13 On this deposit with the Bank of Canada hinges the chartered
14 banks' ability to create credit. The trust companies
15 of course have no such power of credit creation, though
16 the twelve and one-half times multiplier of the banks
17 is often confused with the identical multiplier which
18 applies between the trust companies' ability to accept
19 public deposits and their unimpaired paid-up capital
20 and reserves.

21 38. This latter provision has nothing to do with
22 the maintenance of reserves; it is a protective measure
23 designed to shield the trust company depositor. That
24 the multipliers are identical is only coincidence. In
25 any case the essential difference in kind between trust
26 companies and banks makes it obvious that if controls
27 are required, they must be specifically designed for
28 each type of institution.

29 39. We would like to stress that far from being

30 Para. 39 - See Appendix 2, Appendix A



1 able to extend credit by a twelve and one half times
2 multiplier as the chartered banks do, the trust companies
3 may only invest to the extent they can attract deposits --
4 in other words, dollar for dollar. Their success in
5 attracting deposits and in re-investing those deposits
6 at a profit is controlled by the prevailing structure
7 of interest rates, which are regulated by the Bank of
8 Canada in the interests of the economy as a whole.
9 There is definitely no question of the trust companies
10 being able to make their own rules in this matter,
11 nor should there be. They are very much controlled by
12 and sensitive to interest rates, which are the fulcrum
13 of their whole operation.

14 40. In any case trust companies' operations in this
15 area are relatively small. There is, moreover, no evidence
16 that trust companies have contributed to financial
17 instability or have hampered the ~~aims~~ of the monetary
18 authorities. In fact such evidence as is available
19 suggests the reverse.

20 41. The Association is of the unanimous opinion
21 that further controls or restrictions of any type
22 imposed on non-bank financial intermediaries such as
23 trust companies would merely be control for control's
24 sake and would serve no useful purpose. This is also
25 the judgment of both the recent Radcliffe Commission

26 Para. 40 - A full discussion of this control issue, to-
27 gether with historical data in support of the
28 above judgments, is contained in Appendix
2, particularly pages II - 47 - to - II - 57.

29 Para. 41 - See Appendix 2, pages II - 57 to II - 72
30



1 in the United Kingdom, and the Commission on Money
2 and Credit in the United States. Further evolution of an
3 adequate financial system to serve the economy will best
4 be achieved by encouraging competition between, and
5 expansion of, the diverse existing organizations. The
6 tremendous growth the country has experienced since
7 the end of the war could not have been achieved without
8 a flexible and versatile financial sector.

9 42. The Association realizes that the policies
10 of the Bank of Canada should not be impeded by the
11 actions of financial institutions; only disorder
12 would result from such a situation. The member companies
13 wish to assure the Minister of Finance of their eagerness
14 to co-operate in the execution of monetary policy and
15 propose that:

16 (a) the trust companies make available to the
17 Minister the same information presently furnished to
18 the Dominion Bureau of Statistics and such additional
19 regular information as he may require to aid him in the
20 formulation of policy;

21 (b) there be regular consultation on matters of
22 common interest between the Minister and representatives
23 of the Association.

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A P P E N D I X 1

Trust Business in Canada

A symposium on the functions and
operations of Canadian trust companies
submitted as an appendix to the Brief
of the Trust Companies Association of
Canada.

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TRUST BUSINESS IN CANADA

Section I - The Trustee Corporation(a) Nature, Powers and Functions

1.01 Some thirty trust companies, at more than 200 offices across Canada, manage over eight billion dollars worth of property and investments held for nearly one hundred thousand individual estates and other accounts. They hold 1.4 billion dollars of savings of Canadians for investment. They protect the holders of the funded debt of Canadian business and industry and record the ownership of the share capital of most Canadian public companies. What is a trust company, and how does it operate?

1.02 A trust is a legal relationship. Its characteristic form finds the legal title and possession of property vested in a trustee who is in a position to deal with the property as his own, although the beneficial ownership belongs to others -- the beneficiaries of the trust. Thus, A pays a sum of money to a trustee to be invested as the trustee may choose, the income and as much of the capital as required to be used to maintain B, a retarded child of A. B is provided for, whatever happens in the future to A or to his financial status. A has no further right or interest in the fund nor any control over the trustee. (It is also provided that anything remaining at B's death will go to B's children or, if none, to A's other issue).

1.03 A trust is obviously a unique relationship and it demands, of the trustee, a standard of integrity, skill and financial responsibility unique in law and in

business practice. There are many maxims of equity and rules of law which define these standards. A trustee may not himself acquire the property of his trust, he may earn no personal profit in administering the trust other than the compensation allowed, he must maintain a meticulous account of all his transactions, he must justify the prudence of every investment he makes and he is personally responsible for any deviation from the terms of the trust. In particular, he may not mingle the trust assets with his own but must keep them separate and identified. Note - For the civil law province of Quebec, modifications of the above statements are required.

1.04 Like so many inventions of British law, the trust is an instrument of great social utility. But its ultimate value is achieved by employment of a corporation as trustee. Permanence (trusts may be perpetual) specialization in the diverse skills of property management, group judgment and financial responsibility, as realized in the modern corporation, give trusteeship new dimensions which personal trusteeship cannot achieve.

1.05 It is clear, however, that this enhanced value of trusteeship will depend upon the kind of corporation which undertakes the trust. Because of the social value of trusts and for the protection of the public, the State exercises a special jurisdiction over the incorporation and supervision of companies which are permitted to undertake the performance of trusts.

1.06 In Canada, the federal parliament and the

1 legislatures of most provinces have enacted legislation
2 to regulate trust business pursuant to the dual juris-
3 diction over the incorporation of companies. It may be
4 said generally of all this legislation^x that it is
5 directed to two essential objectives, viz., the solvency
6 of the corporations (trust companies) which are given
7 trustee powers and the observance of practices in conformity
8 with the law of trusts, in particular the segregation
9 and ear-marking of trust assets.

10 1.07 The typical statutes place restrictions upon
11 the investment of the company's capital. In most cases
12 the investments authorized are broadly similar to those
13 authorized for life insurance companies. They specifically
14 require the segregation and ear-marking of trust assets
15 and provide for regular reports, an independent audit and
16 examination by government officers to ensure compliance
17 with this vital trustee practice. Thus there is not
18 only special protection for assets held in trust but
19 there is assurance of capital assets to guarantee
20 responsible trusteeship.

21 1.08 This matter of financial responsibility is the
22 central issue to which the interest of the State is
23 directed. An additional assurance is the prohibition,
24 also common to most of the legislation, against public
25 borrowing by the sale of debt obligations of the trust
26 company.

27
28 x

29 A list of the statutes and a note on exceptions to
30 this generalization are contained in the Schedule
which follows.



SCHEDULE TO 1.06

1		
2	ALBERTA	The Trust Companies Act, 1960 Statutes of Alberta, 1960, Chap. 110
3		
4	BRITISH COLUMBIA	Trust Companies Act R.S.B.C. 1960, Chap. 389
5	MANITOBA	The Companies Act, Part XIII B.S.M. 1954, Chap. 43
6		
7	NEW BRUNSWICK	Trust Companies Act R.S.N.B. 1952, Chap. 237 (No restriction on the investment of company funds)
8		
9		
10	NEWFOUNDLAND	No Act
11	NOVA SCOTIA	Trust Companies Act R.S.N.S. 1954, Chap. 300
12	ONTARIO	The Loan and Trust Corporations Act R.S.O. 1960, Chap. 222
13		
14	PRINCE EDWARD ISLAND	No Act
15	QUEBEC	Trust Companies Act R.S.Q. 1941, Chap. 284 (No restriction on the investment of company funds)
16		
17		
18	SASKATCHEWAN	The Trust Companies Act R.S.S. 1953, Chap. 125
19		
20	CANADA	Trust Companies Act R.S.C. 1952, Chap. 272
21		
22		
23		
24		
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1 1.09 Very significant is the fact that the powers
2 granted to trust companies are confined to fiduciary
3 and related business. Since the dangers of engaging
4 in risk enterprise are thus eliminated, the company's
5 capital is available to meet claims which might arise
6 out of the performance of its individual trusts and
7 the liability undertaken respecting guaranteed funds.
8 This principle under which fiduciary powers are granted
9 only to corporations created solely for that purpose
10 was wisely established and should be preserved.

11 1.10 Maintenance of the rigorous standards required
12 in the unique trust relationship owe much to
13 specialization in the corporation's fiduciary functions.
14 As explained in (c) on page A.34, the institutional
15 organization is directed to ensuring practices appropriate
16 to fiduciary duties and responsibilities. Staff training
17 is an important factor emphasized by all the companies
18 and supported by this Association. But not to be
19 neglected is a tradition, established over many years
20 and many lives in each company and in the industry,
21 which makes certain demands of the individual whose
22 career is in trust business. It results in a morale
23 which is very marked in the industry -- a special attitude
24 toward one's duty and a special pride in that attitude.
25 It is a tradition which is shared in by the Boards
26 of the companies.

27 1.11 The functions of the trustee corporation are
28 described in the following three sections (2,3 and 4)
29 of the Brief. It is necessary to explain the manner
30 in which the functions are classified, viz., Individual,



1 Collective and Corporate trusteeship.

2 Individual Trusteeships must be administered
3 in all respects as units. In each trust the trust
4 property is conveyed, the beneficiaries are designated
5 and the powers and duties of the trustee are prescribed
6 under a distinct trust document by the creator of the
7 trust. The necessity for administration as units requires
8 administrative methods and techniques which are not
9 required in collective trusteeship and the property
10 of each individual trust is kept segregated and
11 identified. The most familiar form of these is the
12 testamentary trust created by will and taking effect
13 on death.

14 1.12 Included under the heading of individual
15 trusteeships are pension trusts. Considered in the
16 economic setting, the trustee's function is related to
17 that described under collective trusteeship. Private
18 pension funds are another of the financial institutions
19 described as investment intermediaries. But the pension
20 trustee function is an individual trust as defined above
21 and is created as a unit trust by the employer. It has
22 seemed preferable to classify functions in relation
23 to administrative considerations.

24 1.13 Agencies conducted for individual persons are
25 also included here and are administered as individual
26 units. Although not trusts at all, the business arises
27 through the availability of the same organization of
28 skills and reliance upon the same responsibility which
29 makes the trust company an ideal trustee.

30 1.14 A Collective Trusteeship is created when members

1 of the public pay money to the trust company to be held
2 on definite terms but mingled together and administered
3 as a single trust. It is necessary, of course, to
4 keep an account of the interest of each contributor-
5 beneficiary in the trust fund, i.e. the current balance
6 in a deposit account or a certificate of the amount
7 received upon whatever terms. It is in this role that
8 the trust companies mobilize and invest a portion of the
9 nation's savings.

10 1.15 Corporate Trusteeships are so called by reason
11 of their relation to corporation finance. They are
12 trusts for the holders of corporation obligations. With
13 them are grouped corporate agencies because both these
14 functions arise in the operation of the new issue market.
15 In both bases, the function of the trust company provides
16 greater security for the individual investor.

17 1.16 It has been convenient to distinguish the
18 functions of the trust company but it is much more
19 significant to call attention to their essential unity.
20 All of them (except the related agencies) involve the
21 trust relationship with the standards for performance
22 which have been explained. They are all, including
23 the agencies, related to savings. The individual
24 trusts commonly represent a life-time's savings in
25 many forms -- stocks and bonds, real estate, mortgages,
26 life insurance. The trust company's function is to
27 preserve this capital, utilize it productively and
28 eventually distribute it as directed. The collective
29 trusts involve the function of attracting current
30 saving as well as their management. The protective



1 functions performed in the corporate trusteeships relate
2 to savings mobilized by another investment intermediary
3 institution, the new issue market.

4 1.17 There is a third factor common to individual
5 trusts and collective trusts which makes those two
6 functions essentially compatible. Property management,
7 for the trustee of individual trusts, has increasingly
8 become investment management. In supplying the manage-
9 ment skills which the public requires of them, the trust
10 companies have placed increased emphasis on investment
11 skills. They have built up highly specialized organ-
12 izations for investment research and administration and
13 are therefore ideally equipped to function as investment
14 intermediaries through their collective trusts.

15 1.18 This is not to minimize the importance of the
16 skills in real estate and mortgage management. This
17 other area in which the trust companies specialize
18 is of vital importance in finding, making, and administ-
19 ering mortgage investments. This skill also serves both
20 individual and collective trusts and is frequently
21 used in corporate trusteeships. This also emphasizes
22 the essential unity of trust company functions.

23 (b) The Trustee Company in Other States

24 1.19 It will be of interest to compare the nature
25 and functions of the Canadian trust company with
26 institutions in other countries which exercise trustee
27 powers. We are concerned only with countries whose legal
28 systems are based or partly so on English common law
29 because, with some qualifications, only in such systems
30 is the trust known and recognized. (See "Trust Business



1 in Common Law Countries", Stephenson, 1940, American
2 Bankers Association, for a detailed examination of
3 this subject).

4 1.20 In the United Kingdom trustee powers are
5 exercised by insurance companies, joint-stock banks,
6 and by the office of the Public Trustee. The trust
7 service provided by all of them is as wide as that of the
8 Canadian trust company including executorship and all
9 forms of individual trusts and agencies including pension
10 fund trusteeship and corporate trusts and agencies.
11 Except for the Public Trustee (who holds an important
12 place in the field), trustee powers are exercised by
13 institutions which perform other financial roles. This
14 has been true from the beginning and was apparently
15 due to (a) less emphasis on the value of corporate
16 trusteeship and (b) the important role in trust business
17 assumed by the Public Trustee.

18 1.21 New Zealand pioneered trust business. There,
19 as in Canada, trust business is carried on by corporations
20 which exercise it as their sole function. There are a
21 few historic exceptions - companies in the insurance
22 field. Banks are not engaged in trust business. The
23 Public Trust Office has an important place in the field.

24 1.22 The Australian scene is similar. The "trustee"
25 company (the title is more appropriate than ours) is
26 the only institution which is granted trust powers
27 except the public institutions of Public Trustee in
28 each of the states.

29 1.23 In South Africa, commercial banks exercise
30 trust powers as well as trust companies which confine



1 their activities to trust business. In India trust
2 business is closely tied to banking, with commercial
3 banks exercising trustee powers directly or through
4 trust company subsidiaries.

5 1.24 In the United States trust powers were originally
6 granted to corporations created solely for that purpose
7 or to insurance institutions. All the states recognized
8 the need for and created corporations to administer
9 trusts. Some granted various insurance powers as
10 complementary and practically all granted the additional
11 power to receive deposits of money in trust. Neverthe-
12 less the trust company was considered a completely
13 different institution from a "bank of discount and
14 deposit" which was also a creature of all the state
15 governments.

16 1.25 The situation to-day in the United States is
17 that most commercial banks have trust departments and
18 trust and banking powers are exercised by a single
19 institution. The development of financial institutions
20 there differed completely from the development in Canada
21 with its national branch system.

22 1.26 While institutions with combined banking and
23 fiduciary functions operate effectively in the U.S.A.
24 and the United Kingdom, we nevertheless hold strongly
25 to the view expressed in 1.09 that specialization of
26 institutions in each of these fields, as found in the
27 Canadian system, is sound.

28 (c) Organization and Procedures

29 1.27 There is nothing in the organic constitution
30 of trust companies which differs from normal corporate



1 structure. A few variations in the usual functions of
2 a Board of Directors are noteworthy, although no pattern
3 common to all companies can be described.

4 (a) Because of the predominant importance of the trust
5 company's investment function its Board of Directors
6 exercises a wider and more detailed surveillance of
7 these operations that is common in the scope of activities
8 of directors of other corporations. The Board or a committee
9 appointed by the Board reviews all investment transactions
10 in all individual and the collective trusteeships. This
11 duty tends to determine the qualities sought in electing
12 directors.

13 (b) All companies make use of their Board members in
14 setting up special committees to exercise important
15 discretions especially in relation to bond issue
16 trusteeships and receiverships or in individual trusts
17 of special magnitude and importance.

18 (c) Some companies have an executive committee of the
19 Board which meets regularly and more frequently than
20 the Board. It may perform the functions described in
21 (a) and (b) above and may also make decisions respecting
22 capital and guaranteed investment which, in other
23 companies, would be made by the officers' investment
24 committee.

25 (d) Because of the degree of autonomy accorded under
26 the branch system described in 1.42 the companies normally
27 appoint an "advisory board" in cities where branch offices
28 are located. Usually such boards have no constitutional
29 authority but advise the manager on local matters and
30 public relations and are used as a special committee



1 for the purposes mentioned in (b) above regarding trusts
2 performed at the branch.

3 1.28 Whatever duties may be performed by the Board,
4 it is clear that it may delegate powers in the usual
5 way to the executive officers of the company. It is
6 generally considered that officers so authorized have
7 capacity to discharge all the corporation's powers and
8 duties. Management skills alone are not adequate for
9 the executive officers of trust companies. They are
10 invariably qualified by trust business experience to
11 contribute directly to trust operations through consultation
12 or participation in committees and other group decisions.

13 1.29 A primary feature of organization is provision
14 for the exercise of group judgment. This technique
15 controls departmental and inter-departmental procedures,
16 and is marked by the use of standing and special
17 committees.

18 1.30 Internal organization is shaped to the special
19 nature and functions of the corporation trustee. The
20 essential feature here is specialization and departments
21 are created to achieve the highest efficiency in each
22 area of activity. Apart from the investment department,
23 treated separately in the paragraphs following,
24 characteristic organization in the larger companies also
25 provides departments to deal with:

26 Trust Administration (Individual trusts)

27 Savings (Receipt of guaranteed funds)

28 Corporate Trust

29 Stock Transfer (including Registrar and other corporate
30 agencies)



1 Trust Accounting
2 Securities and Vault
3 Personnel
4 Business Development
5 Real Estate and Property Management
6 Mortgages
7 Income Tax
8 Death Duties
9 Insurance
10 Pension Trust
11 Capital and Guaranteed Accounting

12 (d) Investment Procedures.

13 1.31 The investment department must be organized
14 to deal efficiently with:

15 individual trusts and agencies (estates, trusts
16 and agencies)

17 guaranteed funds

18 capital funds

19 including such special individual and collective trusts

20 as:

21 Pension trusts

22 pooled pension funds

23 pooled funds for registered retirement plans

24 common trust funds

25 investment fund (mutual type)

26 The organization is usually based on operational consider-
27 ations.

28 Typical groups or divisions would be:

29 research - compiling economic and other statistics
30 and information on industries and corpo-
rations



- 1 bond analysis) - responsible for specific
2) recommendations in each area
3 stock analysis)
4 trading - placing of buy and sell orders
5 individual trusts - responsible for portfolio
6 funds - responsible for portfolio manage-
7 ment of pension and other funds
8 private companies - management of estate owned
9 mortgage - to pass on loan applications
10 officers with senior appraisal
11 experience in the real estate
12 and mortgage departments are
13 added to form the Mortgage
Committee
"wholesale" savings - receipt on special terms and
investment of short term funds.

14 The actual buying and selling of securities, when approved,
15 may be carried out by either the bond and stock trading
16 section or the securities department, depending on the
17 particular company's organization. The company
18 treasurer or some executive experienced in finance
19 normally will head the investment department.

20 1.32 Investment holdings of all accounts are reviewed
21 by an investment committee of senior officers. Typical
22 procedure would be a weekly meeting. The investment
23 department groups in charge of portfolios are responsible
24 for regular review at adequate intervals. The committee
25 also considers matters of investment policy and reviews
26 industries or specific companies at the instance of the
27 investment department. Urgent matters may be dealt with
28 between meetings by a group of members (three to five
29 is common) designated by the committee.

30 1.33 We have been asked whether directors of trust



1 companies influence investment to benefit other companies
2 in which they are interested. Certainly the Boards of
3 most trust companies are largely composed of men having
4 other corporate interests with which their personal
5 interest may be involved. It is here that the trustee
6 tradition mentioned in 1.10 has an important influence.
7 The concept of conflict of interest is a routine
8 precept, thoroughly understood and meticulously observed.
9 But in any event the procedures outlined above which
10 place initiative within an operating department militate
11 against the exercise of outside personal influence.

12 It should be added that an investment decision
13 based upon the interest of a trust would not be dis-
14 qualified because of the relationship of a director to
15 the transaction.

16 (e) Control Procedures

17 1.34 Trust Companies are required by law to have
18 their accounts audited by independent public accountants.
19 Under the Canadian and Ontario Acts specific requirements
20 are made concerning the auditor's report to the
21 shareholders and in addition the auditor must report
22 upon the annual financial return required to be filed
23 with the administering department of government. Both
24 statutes provide for inspection of companies and
25 comprehensive examination of their affairs at least
26 annually.

27 1.35 All companies maintain a continuous internal
28 audit as a control on operations and as an aid to the
29 independent auditor who approves the internal audit
30 program. The standard measure for safeguarding the



handling of securities and for all payments are observed through the techniques of dual custody, dual control, and other divisions of authority.

(f) Branch Organization

1.36 Trust Companies are anxious to provide fully integrated trust services to every community in Canada through the establishment of new offices provided there can be forecast, with reasonable soundness, the eventual development of sufficient business to cover operating expenses and assure a reasonable profit after the offices are well established. Trust Companies are very conscious of the fact that increasingly more Canadians are using and requiring their services, and this in itself leads to the establishment of new offices wherever it is practical to do so. They are constantly alert to the needs of the general public and to develop new services to meet those needs as they become evident. That they are alert and responsive to the needs of the public has been proved by the development of new services, improved methods and also by the extension of offices to serve the country. The trend in branch establishment is shown by the following table:

	1941	1946	1951	1956	1961
Number of offices in which a fully integrated trust business was carried on in the years -	99	109	131	142	173
Number of other offices -	14	16	20	23	44
TOTAL	113	125	151	165	217

The second category relates to the "savings office" dealt with in 1.43.



1 1.37 New fully integrated branch offices are
2 established as a result of many factors which include
3 the following:

4 (a) - A volume of business is frequently built
5 up in a particular area through the use of
6 the mails. This applies particularly to
7 - public savings and mortgage loaning.

8 (b) - Business development personnel working
9 in an area may find and develop considerable
10 business of a fiduciary nature, i.e. estates,
11 trusts and agencies.

12 (c) - Invitations to open a branch office are
13 - received with increasing frequency from local
14 citizens who feel the lack of adequate trust
15 service of all kinds. Often it is the legal
16 profession which takes the lead in requesting
17 and encouraging the establishment of a trust
18 company local branch office.

19 1.38 If these and other factors indicate that the
20 opening of a branch office may be desirable the situation
21 would be examined further.

22 (a) - Appraisal by directors and senior
23 officers through visits to the area and on the
24 spot discussions with responsible people who
25 are in a position to assess the possibilities
26 from the local viewpoint.

27 (b) - The availability of sufficiently trained
28 senior personnel to provide the degree of
29 experienced and highly competent service that
30 would be required. It is estimated that a staff



1 of at least nine to twelve persons is desirable
2 to man a new fully integrated trust company
3 office and of these at least four would require
4 to be of a senior level of trust company
5 experience. Admittedly more modest establishments
6 have not been uncommon.

7 (c) - The availability of sufficient funds
8 in the budget allocated to branch office
9 development.

10 (d) - A study of general locations to
11 determine population density, average personal
12 income range and, as far as possible, the
13 potential personal income range.

14 (e) - A study of general locations which
15 would include traffic counts, availability of
16 parking facilities, traffic factors and the
17 direction in which future development of a
18 business area seems to be moving.

19 1.39 Once the site of a new branch office has been
20 selected, it is then the responsibility of the trust
21 company's office premises department to supervise the
22 planning and construction. Space requirements of a new
23 fully integrated branch office would generally be of the
24 order of 2,000 square feet as a minimum, being approximately
25 200 square feet per employee, having in mind the number
26 of employees referred to earlier. As the branch
27 develops, the provision of square feet per person can
28 be reduced to approximately 125 square feet. In planning,
29 it has been found wise to provide additional space beyond
30 the minimum requirements which can be available on short



notice and, in the meantime, leased to sub-tenants. New branch office space will be required to be properly air-conditioned, attractively partitioned and decorated and, of course, heated. The rental cost, without furnishings and equipment of this kind of office space including adequate maintenance service, would probably range from \$7.00 to \$10.00 per square foot per annum.

1.40 In establishing a new branch office there are, of course, three main items of expense to be considered -- salaries, rent and advertising -- and, in addition, such other expenses as stationery, business tax, unemployment insurance, repairs, insurance, postage, telephone, charitable donations, auditor's and solicitors' fees as well as many sundry other expense items. An estimate is set out below of the approximate range of operating costs for the first five years in establishing an office providing all trust services.

(Figures express thousands of dollars)

	<u>Salaries</u>	<u>Rent</u>	<u>Advertising</u>	<u>Other</u>	<u>Total</u>
1st year	40 - 45	14 - 24	12 - 12	15 - 18	81 - 99
2nd year	40 - 45	14 - 24	5 - 5	15 - 18	74 - 92
3rd year	43 - 48	14 - 24	5 - 5	16 - 19	78 - 96
4th year	44 - 49	14 - 24	5 - 5	16 - 19	79 - 97
5th year	45 - 50	14 - 24	5 - 5	17 - 20	81 - 99

It is generally estimated that it will take at least five years to reach the break-even point with a fully integrated office, but this estimate is on an over-all basis and not the break-down point for each department.

1.41 Each area in which a new office is established requires an individual program for the development of business in which emphasis would be placed on the particular phases of trust company services which appear



1 to be most in demand. While the objective is for the
2 branch office to begin to show profit by at least the
3 end of the first five years of operation, it is almost
4 impossible to estimate the time that will be required
5 for some departments (for example, the personal trust
6 department) to reach the break-even point. In point
7 of fact, there will undoubtedly be some departments
8 which will be carried at a loss for a very long time
9 in the effort to provide full trust services. As a general
10 rule, economy would dictate the development, as quickly
11 as possible, of the receipt of guaranteed funds and its
12 investment in mortgages. This emphasis may make it
13 possible to cover the losses of other departments which
14 take considerably longer to reach the break-even point.

15 1.42 It is inherent in the nature of individual
16 trusteeship business that a considerable degree of
17 autonomy must be granted to branch management. The
18 exercise of discretions is daily routine and the business
19 cannot be operated from head office. This fact and the
20 variety of services and skills required in trust business
21 puts the branch operations of trust business in a quite
22 different sphere from branch banking. This is well
23 illustrated in the State of California where branch
24 banking is permitted and where banks exercise trust
25 functions. In this state, with a population approximately
26 equal to Canada's, the Bank of America in 1960 had 658

27 branches but trust business was conducted at only 27.
28 1.43 Until comparatively recently, it was the
29 practice of the companies to maintain one office in the
30 central downtown area of each city in which they did



1 business. In the early 1950's most cities experienced
2 a movement of population to the suburbs and fringe areas.
3 With this movement grew a demand for a full range of
4 shopping and services to be provided within easy access
5 to large residential concentrations. The demand became
6 more urgent as the problem of transportation and parking
7 worsened in the downtown area.

8 1.44 Shopping centres in the suburban areas seemed
9 to be the answer, for these centres not only provided
10 the range of shops and services which the public demanded
11 but they also offered adequate free parking facilities.
12 Such centres brought about changes in shopping habits
13 and as they became increasingly popular, stores were
14 opened Thursday and Friday nights as well as all day
15 Saturday. The later 50's saw trust companies opening
16 offices in shopping centres and the chartered banks
17 were also establishing branches in these locations.

18 1.45 Depositors with trust companies have traditionally
19 enjoyed a higher interest rate and longer business hours
20 than were available at other financial institutions.
21 It was logical to establish office hours which coincided
22 with shopping habits. The trust companies in the suburban
23 districts therefore remain open two nights a week as well
24 as all day Saturday. The growth of deposits in the suburban
25 offices clearly indicates that the trust companies are
26 meeting a public need. This new kind of branch, while
27 primarily directed to attracting savings, is used also
28 for finding mortgage investments, conducting a real
29 estate service, and as a feeder of fiduciary business.
30 It is customary to arrange appointments at the branch for



clients who wish to discuss wills and estate matters with qualified officers of the company. It will be obvious that branch expansion of this kind will involve substantially different cost and profit factors from those discussed above.

(g) Personnel Policy and Practice

1.46 Total staffs of Canadian trust companies number in the region of 7,000 people, about evenly divided between men and women, with aggregate annual salaries of about \$30 million.

Executive positions and those calling for training and experience in specialized fields, such as trust administration, investment research and management, pension trust development and real estate appraisal are usually filled by men. Women are employed extensively for clerical work, records, machine operations, stenography and filing. Female staff turnover is rather high.

Trust company staffs, particularly male staff, traditionally have included a relatively high proportion with long service of 25 to 50 years. Turnover of men is relatively low after the first two to three years of service during which a proportion of the younger men leave, including a number who wish to take advanced education.

1.47 Male staff for trust companies is generally recruited from three main areas:

High School graduates (junior matriculation standard generally required)

University graduates (principally Law, Commerce or Arts with emphasis on Economics.)

Applicants with a few years of business experience (not necessarily in the trust company field.)



1 Certain companies tend more than others to
2 employ qualified lawyers for trust administration and
3 executive posts and almost all companies have some law
4 graduates. Increasingly, there are openings for public
5 accountants. The main interest is in future leadership
6 potential, regardless of standards of formal education,
7 and it is primary policy to encourage the development
8 of staff of this calibre.

9 1.48 To attract suitable applicants, personnel
10 officers maintain contacts with placement and vocational
11 guidance officers at universities and high schools and
12 visit universities for campus interviews. Use is also
13 made of the National Employment Service, executive and
14 professional placement services, newspaper advertising
15 and office employment bureaus. Because of the special-
16 ized nature of the work which requires extensive internal
17 training and experience, men are generally taken on
18 under the age of thirty-five, but in some companies,
19 older men are employed for less technical posts which
20 do not impede channels for training and promoting
21 younger men.

22 Trust company administrative work, being quasi-
23 professional in many aspects and highly personal in dealing
24 with clients' confidential affairs, requires not only
25 the highest character but above average qualities of
26 ability and temperament. In selecting male staff,
27 standards are therefore high, selection being based
28 on educational qualifications, initiative, energy,
29 characteristics for good relations with clients and
30 fellow employees and potential for advancement.



1 1.49 The training of trust company personnel is
2 largely "on the job". However, this is often augmented
3 by orientation courses and regular classes and discussion
4 groups within companies. Many companies conduct continuing
5 classes as part of a training program in the field of
6 personal trust and estate administration and some
7 companies have operational training groups to provide
8 individual and collective training for new men entering
9 these fields.

10 Trust companies make available to their employees
11 enrolment in a comprehensive four subject correspondence
12 course conducted by Queen's University under the auspices
13 of the Trust Companies Association of Canada. It normally
14 requires four years for completion. In addition, many
15 companies encourage staff to take outside courses on
16 technical subjects related to their employment. Such
17 specialized courses might include real estate management
18 and appraisal, investment analysis and machine accounting.
19 Many companies pay for part or all of these extramural
20 training courses, and this policy is applied in some
21 cases to night courses for university degrees.

22 1.50 Historically, the policy of trust companies
23 on promotion has very definitely been "promotion from
24 within" and this still applies for the most part. Senior
25 executives, with few exceptions, have risen through
26 the ranks and have had many years of experience in their
27 companies. On occasion, trust companies do reach outside
28 their organizations to fill senior positions but this
29 is nearly always in technical or professional areas.

30 The continuous and more rapid growth in trust

1 companies in recent years has provided opportunities
2 for relatively rapid promotion for men with ability and
3 willingness to work. However, a candidate for advance-
4 ment must generally have gained a sound basic knowledge
5 of some phase of trust company work through several
6 years of experience in the company. As in other areas
7 of business, engagement of staff was virtually at a
8 standstill during the depression and war years so that
9 natural attrition as well as expansion are providing
10 increasing promotional openings for younger men. Indeed
11 expansion in recent years has created very serious
12 problems in some areas, particularly management.

13 (h) Evolution of Canadian Trust Business

14 1.51 The schedule which follows gives an indication
15 of the relative size of all trust companies registered
16 and conducting business in Ontario during 1960 as
17 ascertained from the "1961 Report of the Registrar of
18 Loan and Trust Corporations for the Province of Ontario".
19 All figures are for the calendar year 1960. It will be
20 noted that one-half of these companies have been operating
21 since the turn of the century. Apart from the historical
22 features discussed in 3.01 there has been a long term
23 tendency in all sectors of Canadian industry for businesses
24 which were originally local in character to achieve
25 national stature. It was natural that this process should
26 involve mergers and acquisition of localized
27 institutions by expanding organizations. It was natural
28 too that trust business should emulate the chartered
29 banks in developing the branch system on a sound method
30 of making trust services available across the nation.



1 This is not to say that the branch system is required
2 in our industry. Indeed, for the reasons discussed
3 in 1.42, it presents difficulties. These find their
4 root in the nature of the business which will always
5 ensure a place for purely local institutions.

6 1.52 Following are some mergers of recent years
7 effected by the acquisitions listed below.

8 Montreal Trust

- 9 - 1955, The Brockville Trust and Savings Company
10 - 1957, Prince Edward Island Trust Company
11 - 1961, Acadia Trust Company of Truro, N.S.

12 The Royal Trust Company

- 13 - 1956, Barclays Trust Company of Canada
14 - 1959, Okanagan Trust Company

15 Trust General du Canada

- 16 - 1957, Sherbrooke Trust Company

17 Guaranty Trust Company of Canada

- 18 - 1958, The Equitable Trust Company
19 - 1958, The Western Trust Company
20 - 1960, Prudential Trust Company

21 The Canada Trust Company

- 22 - 1961, British Canadian Trust Company

23 In December 1961, a merger was effected between

24 The Toronto General Trusts Corporation and the Canada
25 Permanent Trust Company to create the Canada Permanent
26 Toronto General Trust Company.

27 1.53 Dealing first with the matter of mergers, we
28 recognize that the history of trust business in Canada
29 is marked by amalgamation and consolidation and it is
30 thought to have brought a stronger, better integrated

(Thousands of Dollars)								
Name of Company	When Incorporated	Company Funds	Guaranteed Funds	Estates, Trusts and Agency Funds	Total Assets under Administration	Gross Income	Net Profit After Inc. Taxes	Branches in Canada
Royal Trust Company	1892	\$23,253	\$186,432	\$2,252,147	\$ 2,461,832	\$11,622	\$ 1,525	21
Montreal Trust Company	1885	13,277	129,544	1,674,207	1,817,028	8,712	1,187	19
National Trust Company, Limited	1898	7,729	112,513	717,556	837,198	7,175	1,643	17
Canada Permanent Toronto General Trust Company (a)	1872	11,859	78,888	723,018	813,765	6,555	711	27
Canada Trust Company	1894	7,087	85,073	399,038	491,498	4,705	461	29
Administration and Trust Company	1902	4,329	26,486	271,080	301,585	1,152	332	6
Eastern Trust Company	1893	4,231	41,276	209,273	254,780	1,761	208	13
General Trust of Canada	1909	2,912	28,976	220,081	252,029	1,530	258	4
Guaranty Trust Company of Canada	1925	8,236	94,867	146,729	220,826	2,200	777	17
Crown Trust Company	1897	4,166	37,043	198,869	240,078	3,044	372	8
Chartered Trust Company	1905	5,499	44,720	132,256	182,475	2,824	331	4
Waterloo Trust and Savings Company	1913	4,400	65,759	40,212	110,371	1,718	282	7
Victoria and Grey Trust Company	1897	5,865	71,859	21,653	99,327	1,840	463	6
British Mortgage & Trust Company	1877	2,360	39,430	11,916	44,715	832	174	5
Sterling Trusts Corporation	1911	2,494	22,236	11,325	35,965	692	239	3
Premier Trust Company	1913	2,400	19,660	7,240	28,964	811	220	3
Prudential Trust Company, Limited	1909	1,400	-	20,837	21,237	508	58	3
Industrial Mortgage and Trust Company	1889	1,416	15,150	4,370	20,936	376	73	3
Investors Trust Company	1937	1,014	12,796	12,796	13,954	113	3	3
Halton & Peel Trust & Savings Company	1955	1,136	10,311	3,903	12,350	251	19	2
Lambton Trust Company	1928	435	-	3,995	3,828	57	22	
Bankers' Trust Company	1905	432	-	-	432	47	33	
		\$115,565	\$1,110,317	\$7,068,901	\$ 8,294,783	\$59,333	\$ 8,285	197

(a) Pro forma figures of The Toronto General Trusts Corporation and The Canada Permanent Trust Company reflecting the merger which became effective on 1st December, 1961. Date of incorporation is that of Toronto General Trusts Corporation.

(b) Net Loss.

All figures as at Dec. 31, 1960.

Toronto, Ontario

1 industry, providing over-all a better service to the
2 economy and operating aggressively in an atmosphere
3 of active and healthy competition. It is reasonable
4 to suppose that the public interest might benefit from
5 further amalgamation in the industry which would have
6 their justification in the same considerations which have
7 been responsible for this trend in the past. Provision
8 is made by existing legislation for the protection of
9 the public interest.

10 1.54 Dealing next with the matter of ownership of
11 trust company shares by chartered banks, a preliminary
12 observation is relevant. There is nothing new in an
13 association of interests between trust companies and
14 chartered banks: such relationships, ranging from very
15 close association to casual and occasional working
16 arrangements, have existed for many years. In the first
17 place, the trust company is a bank client. The bank
18 accounts of every trust company for its estates, trusts
19 and agencies, company and guaranteed funds and corporate
20 trusts are very important accounts for any bank. If the
21 trust company accepts deposits subject to the "chequing"
22 privilege, an arrangement must be made with a chartered
23 bank to clear cheques drawn on the trust company through
24 the clearing facilities operated by the chartered banks.

25 Beyond this, however, the two institutions offer
26 financial services which are in many ways complementary
27 and each finds it convenient to refer its clients to the
28 other for services which it does not itself perform.
29 Such workings relationships exist and have existed
30 for many years between most banks and one or more trust



1 companies. This kind of relationships described are bound
2 to be closer where either institution has a financial
3 interest in the other.

4 1.55 There seems to be no valid reason why the public
5 interest should be adversely affected where the ownership
6 of trust company shares can be considered to be merely
7 an investment by a chartered bank. It should have no
8 greater significance than the kind of existing relation-
9 ships described above. It may result in benefit to the
10 trust company concerned as against others having looser
11 bank associations. But whatever the result for other
12 trust companies, there is no necessary connotation of
13 disadvantage for the public.

14 We regard competition between the various types
15 of intermediaries as important in the public interest.
16 It is an element in achieving the maximum value of their
17 roles in the capital market. It does not appear that
18 ownership need affect or is likely to affect this feature
19 in view of the number of institutions which maintain
20 intense competition in each area. Certainly there is no
21 evidence that the direct competition between banks and
22 trust companies for savings has been lessened by any of
23 the associations which exist.

24 1.56 Somewhat related is the investment by finance
25 companies in trust companies. An investment interest
26 of the kind described can evolve naturally out of
27 business relationships and it is difficult to see how it
28 could have an adverse effect on the operation of the
29 financial system.

30 1.57 The rapid growth of financial institutions in



general over the decade from 1951 to 1960 in terms of total assets (assets under administration in the case of trust companies) is summarized below. The percentages shown reflect the compounded annual growth of the various segments (listed in order of size) and are based on the figures in the schedule which follows.

	<u>1960/1951</u>	<u>1955/1951</u>	<u>1960/1956</u>
Chartered Banks	6.6%	7.6%	6.0%
Life Insurance Companies	6.5	6.4	6.6
Trust Companies	8.4	6.2	10.9
Instalment and Other Finance Companies	15.4	21.9	7.0
Mortgage Companies	8.5	8.4	9.8
Fire and Casualty Companies	<u>9.7</u>	<u>11.6</u>	<u>8.6</u>
Weighted Average	7.4%	7.6%	7.2%

It is interesting to note that the average annual growth of the trust industry between 1951 and 1955 was the slowest of all institutions surveyed - 6.2 per cent v. 7.6 per cent for the group. However, in the extremely more competitive conditions of the 1956-1960 period, the trust companies surpassed the group as a whole with an average annual increase of 10.9% (7.2 per cent for all institutions). On balance over the decade, the trust companies' total assets rose slightly more rapidly than the group at 8.4 per cent v. 7.4 per cent.

1.58 While the trust industry had had a rapid rate of growth (as measured by total assets under administration), more or less in the line with other financial institutions, it should be noted that the trust companies' profits are smaller than either that of the chartered banks or finance companies, not only in dollar figures but, more importantly, in rate of return on shareholders'

TOTAL ASSETS AS AT 31ST DECEMBER (MILLIONS OF DOLLARS)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Canadian Chartered Banks	\$9,458	\$10,128	\$10,656	\$11,433	\$12,702	\$13,428	\$14,244	\$15,840	\$15,835	\$16,917
Source - Canada Year Book 1961										
Canadian Life Insurance Companies under Federal Registration	4,889	5,207	5,568	5,872	6,278	6,670	7,104	7,583	8,095	8,610
Source - Canada Year Book - various years										
Canadian Trust Companies Registered and Conducting Business in Ontario (Figures include Estates, Trusts and Agency Funds) - See Breakdown Below.	4,005	4,164	4,331	4,712	5,081	5,511	6,008	6,929	7,622	8,295
Source - Report of the Registrar of Loan and Trust Corporations for the Province of Ontario - various years										
Instalment and Other Finance Companies (estimate of Major Assets)*	565	813	1,025	998	1,244	1,612	1,684	1,675	1,962	2,112
Source - Bank of Canada Statistical Summary - January, 1962										
Canadian Mortgage Companies Registered and Conducting Business in Ontario	284	296	309	355	391	408	432	481	531	593
Source - Report of the Registrar of Loan and Trust Corporations for the Province of Ontario - various years										
Canadian Fire and Casualty Insurance Companies under Federal Registration	240	268	312	341	372	394	413	451	483	547
Source - Canada Year Book - various years										
BREAKDOWN OF TRUST COMPANIES' ASSETS UNDER ADMINISTRATION										
Own Account Assets	77	77	79	81	88	95	98	102	109	116
Guaranteed Account Assets	335	355	359	505	577	598	630	806	900	1,110
Estates, Trusts, and Agency Funds	3,593	3,732	3,893	4,126	4,416	4,818	5,280	6,021	6,613	7,069
	\$4,005	\$4,164	\$4,331	\$4,712	\$5,081	\$5,511	\$6,008	\$6,929	\$7,622	\$8,295

* Instalment finance companies, companies licensed under the Small Loans Act and affiliates engaged making personal loans. Excludes subsidiaries of merchandisers who finance sales of their parent companies only.

1 funds. The schedule which follows indicates that
2 between 1956 and 1960, the trust companies had an average
3 return on shareholders' equity of only 7.95 per cent
4 compared with 8.48 per cent for the banks and 12.73
5 per cent for the finance companies. In actual fact,
6 the finance companies' return averaged 12.19 per cent
7 if the intangible assets are deducted from shareholders'
8 funds, which is conservative accounting. The loan
9 companies had the lowest return on equity during the
10 period surveyed at 7.46 per cent.

11 1.59 The nature and extent of trust company services
12 in Canada over the years has been conducive to strong
13 competition. In seeking to take advantage of opportunities
14 afforded by the increasing demand for their services
15 in a growing economy, trust companies have pursued
16 aggressive business development and expansion programs.
17 Although the companies that conduct a general trust
18 business are fewer in number than they were ten years
19 ago, the number of offices has increased as shown in
20 1.36. Fifty-two offices have been opened in the past
21 five years, many of which are located in shopping centres
22 and in the newer residential and business sections. They
23 are often in competition with nearby branches of other
24 trust companies and compete with downtown offices in
25 a number of centres.

26 1.60 As gatherers of savings, one of the strongest
27 areas of competition between trust companies is the
28 attraction of deposits and other guaranteed funds.
29 Here competitive factors extend to offering convenient
30 locations and longer hours of business. But the essential



1 basis of competition is the interest paid for funds.
2 The schedule which follows is an analysis of competitive
3 rates which appeared in the Financial Post of May 5, 1962.
4 Because deposits and guaranteed investment certificates
5 are such an important part of trust company operations,
6 and because contact with the public is broadest in this
7 particular field, competition will continue at a high
8 level.

9 1.61 In the mortgage field interest rates and terms
10 show appreciable variations. Some companies allow higher
11 valuations on property and make loans in areas where other
12 companies will not. If funds in the hands of a company
13 for investment are plentiful, mortgage money may be
14 offered at a lower rate in order to get it out. Mortgage
15 interest rates on similar security under the same
16 terms and conditions might vary by as much as $\frac{1}{2}$ of 1
17 per cent. In seeking to obtain mortgage loans, borrowers
18 frequently "shop around" in order to obtain the most
19 favourable rates.

20 In estate, trust and agency services there is
21 aggressive competition between trust companies for new
22 business. Most trust companies maintain business develop-
23 ment departments and actively solicit appointment as
24 executors, trustees, managers of investments and other
25 property and a broad list of financial services. Large
26 sums are spent each year on advertising. No two trust
27 companies are exactly the same and they exploit all the
28 factors which affect public preference - location,
29 facilities, service, personnel, financial statistics,
30 prestige names on Board or staff, and even antiquity.

COMPARATIVE STATISTICS FOR EQUITY, NET PROFIT, AND RATE OF RETURN

	1956	1957	1958	1959	1960	AVERAGE
	(IN MILLIONS OF DOLLARS)					
Chartered Banks						
- Shareholders' Equity	650.329	730.036	798.637	921.791	999.796	820.117
- Net Profit (a)	61.0	65.3	69.4	67.8	84.3	69.56
- Percentage Return	9.38	8.94	8.69	7.36	8.43	8.48
Finance Companies (b)						
- Shareholders' Equity	106.500	116.784	124.899	134.089	149.074	126.269
- Net Profit	14.344	14.478	16.499	17.002	18.029	16.070
- Percentage Return	13.47	12.40	13.21	12.68	12.09	12.73
(Deducting Deferred Financial Expenses from Shareholders' Equity)	(13.76)	(12.90)	(13.69)	(13.08)	(12.69)	(13.19)
Trust Companies (c)						
- Shareholders' Equity	80.887	84.183	88.352	95.339	100.62	89.765
- Net Profit	6.206	6.216	7.306	7.665	8.265	7.136
- Percentage Return	7.67	7.38	8.27	8.04	8.28	7.95
Loan Corporations (c)						
- Shareholders' Equity	54.561	56.121	61.816	76.121	79.225	65.569
- Net Profit	4.651	4.748	5.622	4.621	4.830	4.894
- Percentage Return	8.52	8.46	9.09	6.07	6.10	7.46

(a) Net profit as defined by the Bank of Canada and set out in its "Statistical Summary" of January, 1962.

(b) Weighted average of 3 largest Canadian independent finance companies - Industrial Acceptance, Traders Finance, and Laurentide Financial.

(c) Source - Report of the Registrar of Loan and Trust Corporations for the Province of Ontario - various years.

	Savings Deposits		Min. Balance Months	Certificates Interest Rates		Term (Years)
	Current %	July /59 %		Current %	July /59 %	
Can. Perm Tor. Gen.	3½	**	6	5	5½	5
Canada Trust	3½	3	6	5	5½	5
Chartered Trust	3½	3½	6	5	5½	5
Crown Trust	3½	3½	6	5	4½	3 - 5
Guaranty Trust	3½	3	6	5	5½	3 - 5
Montreal Trust	3½	3½	6	5	5	5
National Trust	4	3½	6	5	5	5
Premier Trust	3½	3½	6	5	5½	3 - 5
Royal Trust	***	***	***	5	5½	5
Sterling Trusts	3½	3½	3	5	5½	3 - 5

* Interest Rates are lower for shorter periods

** Predecessors Canada Permanent Trust paid ¾% Toronto General Trusts paid ¾% on savings deposits; both paid 5½% on certificates (1)

***Company does not operate a savings department.

(From The Financial Post, May 5, 1962)

(1) Canada Permanent Trust Company did not accept deposits on other guaranteed funds.



1 The same competition exists in offering corporate services
2 such as stock transfer and other agencies, bond trustee-
3 ship, pension fund trusteeship, etc.

4 1.62 The desire of trust companies to compete in
5 as many ways as possible and to make their services
6 attractive has resulted in an increase in the number of
7 trust company services available today. Certainly it
8 has raised the standard of all services. Although
9 successful competition has resulted in increased dollar
10 volume of business, the cost per dollar of acquiring
11 and servicing new business has grown as well. There is
12 no doubt that the Canadian public enjoys today, at
13 no increase in cost, a quality and breadth of trustee
14 service far surpassing that afforded by the industry
15 in the past.

16 (i) The Trust Companies Association of Canada

17 1.63 The coming together of trust companies into
18 association was brought about in Ontario and Quebec
19 in 1932 by the necessity for creating organizations
20 to provide "an opportunity for consultation and co-
21 operation in matters of interest and importance to
22 trust companies". The Trust Companies Associations of
23 Quebec and Ontario have a history of thirty years.
24 Each concerned itself only with affairs in its own
25 province. Subsequently similar associations were
26 established in several other provinces. With the
27 continuing growth of trust business and the national
28 extension of branch organization it became obvious
29 that only an association national in scope and character
30 would be adequate to serve the industry.



business

2. To afford through meetings and otherwise opportunities for consultation, and co-operation in matters of interest and importance to trust companies.
3. To gather and distribute information of interest and value to members.
4. And in general to promote the interests and welfare of trust companies and those they serve."

The Association's affairs are carried on by a president and executive committee elected annually from representatives of member companies.

1.66 The Association is interested in all provincial and federal legislation which may affect any aspect of its members' services to the public or the conduct of trust business. Each section scrutinizes provincial legislation and whenever necessary makes representations to local governments. The national Association keeps in touch with federal legislation and the government departments which administer it. In matters of importance to trust companies generally various government departments have indicated a strong preference for dealing with the Association rather than with individual companies. The Association frequently has been invited to make submissions to the government on many subjects. Many of the members of The Trust Companies Association are members also of The Dominion Mortgage and Investments Association which acts in their behalf in respect of investment and mortgage matters and legislation affecting



1 them. For this reason there is a close relationship
2 between the two organizations.

3 1.67 The bulk of the continuing work of the
4 Association is carried on through standing committees
5 which deal with various trust company functions. These
6 are:

7 Employees' Training Course
8 Institutional Advertising and Public Relations
9 Savings and Guaranteed Funds
10 Income Tax
11 Pension Trust
12 Stock Transfer

13 There are also standing committees of provincial
14 Associations on such matters as trust administration
15 and taxation which become matters for provincial action
16 by reason of constitutional considerations. A number
17 of the provincial Associations also have local Stock
18 Transfer Committees. Committees are also appointed from
19 time to time to deal with special projects. For example,
20 during the period of acquisition of Petroleum and
21 Natural Gas leases by the oil companies engaged in devel-
22 opment, oil royalty trusts were being accepted by most
23 of the companies. A committee undertook a study of these
24 trusts in order to standardize the rights and obligations
25 of royalty owners and the investing public arising under
26 the trust agreements and a new form of trust agreement
27 was generally adopted.

28 1.68 - The main concern of all these committees is
29 to deal with mutual problems of service which are
30 constantly arising. How, for example, with the advent
of data processing should accounts be presented to the
Courts? What should be the required provision of
pension fund agreements which will clearly establish



1 the duties and responsibilities of trustees? How can
2 we co-operate with the stock exchanges toward the
3 operation of a depository system which would largely
4 eliminate the holding of stock certificates for Exchange
5 members' inventories? The subjects are endless and the
6 effort is to meet the needs of the public and to
7 constantly improve the standard of service offered.

8 1.69 Outside the technical area, their work is
9 required by the Association's concern with matters of
10 policy. It is important that the industry should be
11 concerned with social problems to which the functions
12 of the companies are related. The committee conduct
13 studies and make reports upon which the executive may
14 base decisions. For example, the Pension Fund Committee
15 recently prepared, for approval by the executive, a
16 statement of the Association's position on Old Age
17 Security. This committee is also largely responsible
18 for the portion of this document dealing with pension
19 funds.

20 1.70 The Association is a voluntary organization.
21 It has no constitutional powers of self-government for
22 the industry. Its work as outlined above is to improve
23 the standards of service in the industry. In the area
24 of rates of compensation for services charged by trust
25 companies, there is no authority or coercion exercised
26 by the Association.

27 1.71 The Association committees are composed of
28 representatives of member companies who elect a chairman
29 from among their members annually. These committees
30 study and recommend uniform methods of computing fees,



1 i.e., the listing of operations to which a charge is
2 attributed. Some of the committees, particularly
3 Corporate Trust and Stock Transfer, have carried out cost
4 studies which include an examination of practices and
5 experience in the United States and elsewhere. This has
6 tended to create a uniform attitude toward compensation
7 for these services. The companies, however, establish
8 their own fee schedules and they may vary in application.
9 For special and non-routine services, the charges
10 differ considerably.

11 1.72 While the Association has no authority to
12 coerce any member, it is obvious that it has an influence
13 toward uniformity. The very fact of membership, common
14 objectives and continuous co-operation all work toward
15 this result. This may tend to reduce competition in
16 trust services on a purely fee basis, but there is no
17 question whatever that competition for business is
18 extremely keen. It is based mainly on quality of service.
19 The public unquestionably benefits from this and has
20 benefitted by the constantly improving general standard
21 of service which the continuous effort of the Association
22 has helped to achieve.

23 (j) Trust Business in our Economy

24 1.73 The range of trust company services offered
25 to the general public varies considerably between
26 companies. All companies, however, provide the essential
27 fiduciary services, requiring professional management
28 of assets. Some offer the more developed services
29 described elsewhere in this symposium to individuals
30 and corporations, organizations and institutions. Most



1 companies receive deposits and other funds for guaranteed
2 investment.

3 1.74 The basic function of trust companies can best
4 be summed up as the professional management and economic
5 employment of funds entrusted to them. The benefit
6 which accrues to the owners of this capital by its
7 preservation and its productive use will be synonymous
8 with the benefit to the nation as a whole. Although
9 the investment skills employed by trust companies in
10 the administration of their individual trusts and
11 collective trusteeships do not enter into their
12 corporate trust and agency services to the same extent
13 this third role nevertheless finds them performing
14 services which have a similar significance -- producing
15 capital investment.

16 1.75 With the wider distribution of wealth in our
17 expanding economy the level of financial sophistication
18 is certainly rising. Nevertheless, the complex and ever
19 changing investment climate creates a growing need for
20 trustworthy professional management of capital assets.
21 The growing realization of this fact is evidenced by
22 the increasing business entrusted to us and to many
23 investment intermediaries. The trust companies' success
24 lies in meeting this need over such a wide range by
25 the variety of its services. It is illustrated by the
26 continuity provided in managing the affairs of a
27 client -- from his first savings account to the final
28 distribution of his estate, where the process begins
29 again with a new generation.

30 1.76 The operations of this kind of institution



1 continually increase the proportion of accumulated
2 savings of the nation which gets into institutional
3 hands for investment management. The trustee feature,
4 in individual trusteeships, therefore accomplishes the
5 same purpose in attracting accumulated savings as do
6 the various kinds of claims offered by investment
7 intermediaries in attracting current savings. That
8 institutional care and management of savings benefits
9 the economy should require no advocacy. It may also
10 be reasonable to claim that, in some degree,
11 institutional investors perform the function which is
12 discharged by some form of investment issue control in a
13 planned economy. The new issue market depends primarily
14 on the acceptance of issues by institutions.

15 1.77 The function performed in the capital market
16 by trust companies through their collective trusteeships,
17 as one of a large group of investment intermediaries,
18 is well known. Its value to the economy lies not only
19 in their investment management of savings -- in providing
20 social capital to both the public and private sectors
21 of the economy -- but in the stimulation of saving itself
22 through competition among themselves and other inter-
23 mediaries in attracting funds.

24 1.78 The significance of the trusteeship feature
25 is difficult to appraise. It provides an additional
26 security for the saver who entrusts moneys to the trust
27 company for guaranteed investment, as will be explained
28 in Section 3. In individual trusts, the security of
29 provision for dependants afforded by the corporation
30 executor is clear enough. But another trustee function



1 provides an interesting example. Private pension plans
2 are one of the class of institutions known as investment
3 intermediaries. They attract savings by offering claims
4 to old age security. If the plan is insured, the savings
5 will go to an insurance company to purchase annuities.
6 If the plan is implemented by a trustee fund, the
7 savings will probably go to a trust company because
8 personal trusteeship of pension funds is becoming
9 obsolete. The development of this second form for
10 implementing pension plans has without doubt greatly
11 increased the scope and utility of voluntary provision
12 for employee pension plans. As will be explained in
13 Section 2, many new avenues for flexible and effective
14 retirement provisions have been opened up through
15 the emergence of trusteeship in the pension field.

16 1.79 The investment skills of trust companies are
17 supplemented by a highly specialized skill which is
18 an essential feature of their many services. This skill,
19 real property appraisal, is employed in making sound
20 mortgage loans with funds received in individual and
21 collective trusts. The trust companies, along with
22 two other intermediaries -- mortgage loan companies
23 and insurance companies -- also serve the economy
24 by providing capital for housing and other construction.
25 Their importance in this field is discussed in detail
26 in Section 3.

27 1.80 There are two types of investment intermediaries
28 which employ savings in a specialized field but which
29 traditionally do not collect savings directly. These
30 are instalment finance companies and small loan companies.



1 They receive savings indirectly through various other
2 institutions. Trust companies do not channel savings
3 to small loan companies but finance companies which can
4 meet the statutory investment qualifications sell their
5 obligations to trust companies. In this way capital
6 is provided indirectly to another important sector
7 of the economy. The same kind of indirect financing
8 is effected through the large deposits of trust funds
9 maintained by trust companies with the chartered banks.

10 1.81 In the performance of all of their functions,
11 trust companies face active competition. As an example,
12 some services are listed below to show where competition
13 arises:

14	safe custody	-	chartered banks
15	estate and trust		
16	administration	-	lawyers and notaries and individuals
17	investment management	-	investment counsel
18	pension plans	-	life insurance companies
19	gatherers of savings	-	numerous other investment intermediaries
20	stock transfer agencies		corporations themselves may
21		-	perform this function
22	real estate services	-	real estate firms
23	mortgage loaning	-	government and institutional lenders

TRUST BUSINESS IN CANADASection 2 -- Individual TrusteeshipsEstates, Trusts and Agency Business(a) General

2.01 The great bulk of assets under administration by trust companies are held on estate, trust and agency account. The performance of these individual trusts and agencies represents by far the largest part of the services of all the companies, and employs a proportion of their staffs much greater than the proportion of these assets in the whole. The asset statistics are misleading since they are book values and because the practice of the companies varies in how these trusts are recorded. In many cases, only nominal values appear in the asset figures. This E.T. & A item does not represent corporate trusts which are not represented on the balance sheet in any way. The billions of dollars of mortgages granted by corporation borrowers to trust companies in trust to secure bondholders would completely distort a balance sheet.

2.02 The table which follows will indicate the growth of this part of trust business and evidences the increasing demand for these services by the public.

Assets under Administration, Estate, Trust and Agency

(000 omitted)

1920	\$ 575,259	1956	\$5,133,928
1930	1,867,622	1957	5,582,378
1940	2,673,859	1958	6,318,998
1950	3,638,469	1959	6,902,512
1955	4,720,332	1960	7,369,429
		1961	8,142,835

* Amounts of cash received temporarily under bond trusteeships from time to time are held in trust account but are of little significance. (Construction funds, proceeds of property sales, insurance losses and redemption moneys are held for varying periods pending disbursement.)



1 The figures are taken from the reports of the Super-
2 intendent of Insurance for Canada and the reports of the
3 Ontario Registrar for Trust Companies. They include
4 pension trusts.

5 (b) Estate Administration

6 2.03 Of the individual trust and agency business
7 dealt with in this section, much the larger part consists
8 of estate administration. (Unfortunately the accounting
9 of the companies does not provide a breakdown of the
10 asset figure into the classification of estates, living
11 trusts and agencies). Certainly when the public thinks
12 of trust companies, it thinks of executors. Estate
13 administration results in most cases from appointment
14 of the company in a will which becomes effective upon
15 the death of the testator.

16 2.04 A description of the complex and technical
17 elements of estate administration is not required for this
18 information paper. The efficiency of trust company
19 administration arises from the use of specialists under
20 the organization described in Section 1. Acting as
21 auxiliary to a senior trust officer who is placed in
22 charge of the account, appraisers value real estate
23 and mortgages, accountants analyze the value of private
24 companies, specialists in death duties prepare returns
25 and negotiate disputed valuations, income tax functions
26 and problems are handled by a specialist department,
27 professional experience and group judgment are brought
28 to bear in every step. Since most wills provide for
29 continuing trusts, assets will come under the management
30 of specialized departments, in particular the investment



department.

2.05 Where a will creates continuing trusts the executor is usually appointed "executor and trustee". The executor is indeed a trustee but his task as executor may be severed from the trusteeship of continuing trusts and terminates, in theory, when the executor sets aside the trust property which is the subject of the continuing trust.

Continuing trusts involve responsibilities far beyond the management of the assets. Usually there are beneficiaries interested in the income of the trust ("life tenants" are entitled to the income for life) and other beneficiaries interested in the residue ("remainder-men"). Their interests frequently conflict and the trustee must "hold the balance fairly". The trustee may be given very wide discretions to use capital of the residue for the benefit of life tenants or for remaindermen in advance of the termination of the life interest.

2.06 The testator may also appoint more than one executor or more than one trustee of a continuing trust. Where a trust company is appointed, a person may be appointed as well. Usually the explanation is that the testator wants the trust company for its skills, continuity and financial responsibility, but looks to the co-executor to provide a personal touch. The companies feel that this usually results from a lack of knowledge of how trust companies operate and a failure to reflect on the obvious fact that a corporation can only act through persons.



Trust companies are willing to act with co-executors but recognize a duty to point out certain attendant disadvantages. The fact is that the advantages of corporation trusteeship may well be lost. Since both trustees must act, there is no certainty that the personal trustee will always be available. The testator appointed the trust company because of his confidence in its business and investment judgment. But the co-trustee can veto any decision. Co-trusteeship frequently creates unavoidable delays which make it a cumbersome arrangement although the trust company makes every effort to minimize the difficulties.

2.07 Estate administration will also be required when a person dies without making a will, or when the executor appointed under a will is unable or unwilling to act. In such cases (and certain other special circumstances) an administrator of the estate is appointed by the Court and the appointment of a trust company is peculiarly desirable. Its knowledge, experience and financial stability are of exceptional value; they provide those requirements the deceased would have wished to ensure in his personal representatives. Subject to the necessary consents of persons with prior rights being obtained, the Courts are not hesitant to appoint trust companies in such cases.

(c) Executors' Remuneration

2.08 Provincial law governs matters of property and civil rights and, therefore, wills, the devolution of estates, the legal responsibility of executors and administrators and the subject of fees.



1 The Trustee Acts of the common law provinces
2 deal specifically with the responsibility of executors,
3 trustees and administrators to account for their
4 administration and with the subject of remuneration.
5 Although the Acts of the various provinces differ in
6 some degree, those of British Columbia and Ontario are
7 indicative of all.

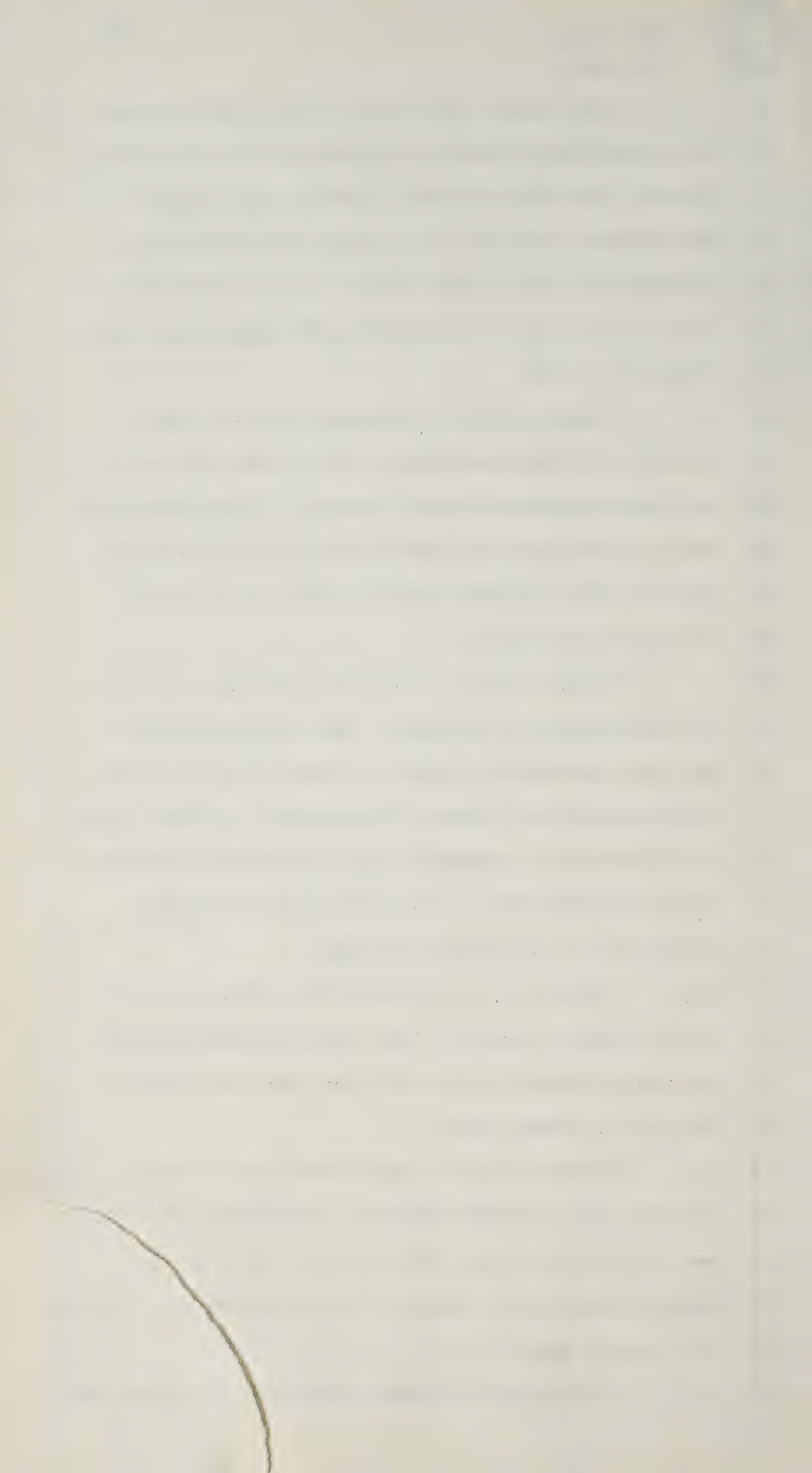
8 Section 94 of the Trustee Act of British
9 Columbia provides that unless accounts are approved by
10 all beneficiaries or unless the Court or Judge otherwise
11 orders, every executor, administrator or trustee shall
12 pass his first accounts within a limit of two years
13 and annually thereafter.

14 Section 82 of the same Act provides for fixing
15 the remuneration of trustees. They are entitled to a
16 fair and reasonable allowance not exceeding 5 per cent
17 on the capital and income of the estate, for "care, pains,
18 trouble and time expended". The exact amount is decided
19 by the Supreme Court or a Judge thereof, or by the
20 Registrar if so directed by a Judge.

21 2.09 In Ontario, no schedule for passing accounts
22 is laid down by statute. The custom is that accounts
23 are passed initially in one to two years and thereafter
24 every two or three years.

25 Section 23(2) of the Trustee Act of Ontario
26 provides that where the trustee's compensation has not
27 been fixed by the instrument creating the trust or by
28 the beneficiaries, the Judge of the Surrogate Court passing
29 the accounts shall do so.

30 Section 61(1) of the Act deals with allowances





1 to trustees and provides that a trustee shall be entitled
2 to a "fair and reasonable allowance for his care, pains
3 and trouble and his time expended in and about the
4 estate". The Judges in Ontario, in allowing compensation,
5 apply varying percentages to capital and income receipts
6 and disbursements. They observe the same maximum of
7 5 per cent which is statutory in British Columbia, but
8 make additional allowances by way of management fees in
9 certain circumstances.

10 2.10 - It would seem that this method of awarding
11 compensation is followed fairly closely in almost all
12 the common law provinces. In the province of Quebec,
13 however, remuneration of executors and trustees is not
14 fixed by the Court and the beneficiaries are asked to
15 approve accounts and to agree on compensation.

16 2.11 A serious inequity in compensation custom is
17 that no additional compensation is allowed even though
18 the testator has appointed more than one executor. The
19 percentage award must be shared by co-executors. The
20 basis of the division between the trust company and their
21 co-executors is usually a matter of mutual agreement,
22 although a Judge of the Surrogate Court has the power
23 to apportion compensation.

24 This rule on compensation poses a serious
25 problem for trust companies and is certainly illegal
26 and unfair. A testator who insists on having more than
27 one executor or trustee should expect to pay them all.
28 The duties and responsibilities of trust corporations
29 are not decreased when they act with co-executors or
30 co-trustees in the administration of an estate: on the



contrary they are increased.

2.12 Trust companies endeavour, wherever possible, to obtain the approval of beneficiaries to their administration as disclosed by their accounts and to compensation for their services. This can be done only when all the beneficially interested parties are known, are of age and are competent.

2.13 Some of the difficulties regarding compensation and in particular that relating to co-executors can be avoided by agreement with the testator in his lifetime. Many companies suggest that such an agreement be embodied in the will which appoints them. A flexible element is necessary and one commonly used in Ontario provides: "I agree that the compensation payable to X Trust Company for the administration of my estate shall be according to the above schedule of fees. It is understood that this agreement may be terminated during my lifetime by either myself or by X Trust Company giving notice of such termination in writing to the other party".

(d) Living Trusts and Agencies

2.14 The trusts described herein are referred to as "living trusts" to distinguish them from testamentary trusts. A living trust is one established during the settler's lifetime to become effective immediately upon its execution. The creation of a living trust involves the transfer of property to the trustee and the acceptance by the trustee transfer of property to the trustee and the acceptance by the trustee of responsibilities and duties arising out of the ordinary



1 law as well as out of the terms of the trust deed itself.
2 When a trust company acts in an agency capacity, the client
3 remains in complete control of the property involved and
4 may issue or change his instructions to the agent at
5 any time.

6 The law of the Province of Quebec is such
7 that the use of a living trust is restricted. The
8 following remarks are applicable to trusts in the
9 provinces other than Quebec and no attempt has been made
10 to single out those instances in which particular types
11 of trusts or particular provisions would not be
12 effective in Quebec.

13 2.15 The creation of a trust appeals to the person
14 who, in addition to seeking relief from the day to day
15 administration of property (an objective which can be
16 realized through agency) wishes to be freed from the
17 necessity of making the many and important decisions
18 that the ownership of property entails and is prepared
19 to transfer ownership and control now for the benefit
20 (or partly for the benefit) of other persons. The
21 trust vehicle is particularly attractive to those whose
22 desire it is to give property to others but who wish
23 to impose conditions or delays or withhold control
24 and ownership. These objectives can be realized by
25 transfer to a trustee. If the trustee is a trust
26 company, the benefits desired are increased by security
27 and professional management.

28 Noteworthy features of a living trust are the
29 ability:

- 30 1. to retain the income and even some elements



1 of control during lifetime as well as a power of
2 revocation while providing for the disposition of
3 the property after death.

4 2. to ensure the lifetime maintenance, care
5 and general welfare of dependants who are incapable,
6 handicapped, extravagant or improvident.

7 3. to provide for property to pass to one's
8 beneficiaries after death with the minimum of expense
9 and delay.

10 4. to benefit others by way of gift in a
11 manner that will ensure that the gifted property will be
12 well managed and will not be dissipated.

13 5. to benefit successive generations within
14 the limits of the rule against perpetuity without the
15 death duty penalty which accompanies the passing of
16 property by outright and successive gifts.

17 6. to benefit in the settler's lifetime with
18 the property reverting to his estate upon his death.

19 In many cases trusts are used to achieve
20 tax advantages under the provisions of specific
21 legislation. In such cases, the form of the trust will
22 be determined by the legislation.

23 2.16 Canadian trust companies also act as trustee
24 of certain special purpose trusts such as:

25 1. Life Insurance Trusts - These may be
26 funded or unfunded. In the funded trustk property is
27 settled to provide a fund for the payment of life
28 insurance premiums. The proceeds of the policies fall
29 into the fund on the death of the settler to be dealt
30 with by the trustee in accordance with the terms of



1 the trust. If the trust is unfunded the trustee has no
2 responsibility with regard to the payment of premiums.

3 2. Business Insurance Trusts or "Buy-Sell
4 Agreements - The death of a person having a substantial
5 interest in a partnership or a private or family
6 corporation poses special problems. The estate of the
7 deceased shareholder almost invariably wants to market
8 the interest to raise money for death duties or to
9 provide a more diversified estate. The surviving share-
10 holders do not, as a rule, wish to continue the business
11 in partnership with the estate but lack the funds to
12 purchase the estate's interest. In a business insurance
13 trust each shareholder purchases insurance on the life
14 of his co-shareholders and deposits the policies with
15 the trustee. The agreement requires the estate of a
16 deceased shareholder to sell its interest to the
17 surviving shareholders and requires the latter to buy
18 at a stipulated price or in accordance with a formula.
19 The trustee receives the insurance proceeds on the death
20 of a shareholder and sees that effect is given to the
21 terms of the agreement.

22 3. Escrow Agreements - Contracts between
23 parties involving a sale or a joint venture often require
24 the deposit of property with a trustee until completion
25 of the sale or the carrying out of the joint venture. In
26 such cases a trust company is employed to hold the
27 property for the protection of all the parties interested.
28 Its duties and responsibilities are covered in an
29 agreement to which it is a party.

30 2.27 A person (or a corporation) may appoint a trust



1 company to perform any service on his behalf -- the
2 duties and responsibilities undertaken maybe myriad in
3 their nature. The trust company's special qualifications
4 for property management and particularly investment
5 management bring it a great many agency appointments.

6 Two classes of service as investment agent
7 have brought trust companies a substantial and growing
8 volume of business in recent years. They are generally
9 described as safe custody accounts and investment
10 management accounts. The services rendered in each
11 are identical except that in an investment management
12 account, the investment portfolio is kept under constant
13 review and regular investment advice is given upon
14 which the client may act or not as he sees fit. A
15 brief outline of the services rendered in the typical
16 investment management account is as follows:

- 17 - custody of investments
- 18 - collect and disburse interest, dividends
- 19 and other income
- 20 - supervise investment portfolio, reviewing
- 21 it regularly and making recommendations for
- 22 sales and purchases
- 23 - purchase and sale of investments as instructed
- 24 - maintain proper accounting records
- 25 - notification of any re-organization,
- 26 redemptions, exchanges, rights, etc., affect-
- 27 ing the securities of which the agent has
- 28 knowledge, and the execution of instructions
- 29 with regard thereto.
- 30 - prepare and submit annual statements to client



- 1 - prepare and file information returns
- 2 required by the Income Tax Department
- 3 - prepare and file personal income tax returns
- 4 if directed.

5 If the portfolio contains mortgages, the
6 following additional duties are undertaken:

- 7 - acquisition of mortgages
- 8 - custody of mortgage documents
- 9 - compute interest on mortgages as required
- 10 - collect mortgage payments as and when due
- 11 - verify that adequate fire insurance is
- 12 maintained on mortgaged premises
- 13 - verify payment of real property taxes
- 14 - inspect property and arrange renewals

15 2.18 The fees charged for the services described
16 vary. In Quebec the fees are calculated with reference
17 to income. In most of the other provinces, the fees
18 are computed with reference to capital value and vary
19 according to the amount involved. Fees for safe custody
20 services vary but, generally, a trust company's charge
21 is in the neighbourhood of one-half of the charge made
22 for investment management services. Special charges
23 are, of course, made for special services. For example,
24 an extra fee is charged for the completion and filing
25 of a client's income tax returns.

26 2.19 Another important agency capacity in which
27 trust companies serve is as agent for individuals who
28 are, themselves, acting as executors or trustees. The
29 Trust company does everything it would do if it were
30 itself executor. The individuals, however, must make all



1 decisions, but in this regard they are greatly assisted
2 by the advice of the trust company's officers.

3 There is really no limit to the duties which
4 can be undertaken by trust companies for the convenience
5 of clients. They will ~~act~~ as agent to carry out any
6 legitimate transaction or to administer any kind of
7 property for a fixed or indefinite period. They are
8 particularly well equipped to perform a great variety
9 of services for owners of real estate and this function
10 is dealt with separately, below.

11 (e) Real Estate Services

12 2.20 The essential element in the well developed
13 real estate services which trust companies offer is the
14 highly technical skill of real property appraisal. The
15 importance of mortgage investment, both in individual
16 trusts and on guaranteed account, has meant that experts
17 in this field have always been required in trust company
18 operations. The specialized service of the real estate
19 and mortgage departments becomes available for many
20 essential operations in estate administration -- settling
21 death duty valuations, determining sale policy and manage-
22 ment of real estate assets and mortgage investments. In
23 the collective trusteeship of guaranteed funds, as well
24 as in individual trusts, a highly skilled organization
25 is necessary for obtaining, making and managing sound
26 mortgage investments.

27 2.21 Property development has reached unprecedented
28 proportions in all fields of real estate in the last two
29 decades. There is every reason to anticipate that this
30 activity will continue to keep pace with the future growth



1 of Canada. The need for trained personnel in real
2 estate becomes continually more apparent. Huge investment
3 funds are being diverted to real estate for the account
4 of Canadian, U.S. and other foreign investors. These
5 investments take the form of mortgages, lease backs,
6 shopping centres, housing developments (either in single
7 family or multiple units), ground leases, office
8 buildings (some of proportions never before contemplated
9 in Canada), industrial and residential land assemblies
10 and industrial developments generally. In order to
11 participate adequately in these developments, specialists
12 in various fields have been developed and will now be
13 found on the staffs of most, if not all, trust companies.

14 2.22 As a result, real estate services and
15 experienced personnel of the highest calibre are available
16 to the public at trust company offices across Canada.

17 Services include:

- 18 - Collection of rentals
- 19 - Leasing of available space and negotiation
20 of renewal leases at current rental rates.
- 21 - Employment and supervision of building
22 personnel.
- 23 - Maintenance of proper landlord - tenant relations
- 24 - Supervision of repairs, replacements and
25 alterations.
- 26 - Periodic inspection of properties.
- 27 - Purchasing of supplies or service contracts.
- 28 - Processing and paying accounts.
- 29 - Providing statements as required by owners.

30 Fees for such management operations are usually



1 based on local real estate board charges. In addition
2 to the services outlined above, the managing agent is
3 expected to provide advice to his principal on such
4 matters as insurance coverage, real estate assessments,
5 appeals, the effect of new zoning laws, and on
6 alterations or additions which might benefit the owner's
7 interests.

8 2.23 Real estate brokerage is a wide field embracing,
9 in addition to the normal processing of real estate
10 assets under administration, the buying, selling and
11 leasing of residential, commercial, industrial and income
12 real estate on a strictly brokerage basis. As in the
13 case of property management, fees are based on local
14 real estate board tariffs. Most trust companies are
15 members of local real estate boards and thus are able
16 to participate in the photo-co-operative listing system
17 now in vogue in the majority of Canadian cities, the
18 success of which in the disposal of real property
19 has resulted in a sales volume in 1961 of nearly
20 \$455,000,000 and is increasing every year.

21 In some companies, sales operations are on a
22 large enough scale to warrant sizeable sales staffs
23 including top flight salesmen specializing in selective
24 fields. Companies with "savings branches" in the larger
25 cities usually locate salesmen at them. The real estate
26 business has become so highly competitive that it is
27 essential for personnel to be constantly improving their
28 knowledge of its various techniques. To this end trust
29 companies encourage their employees to take advantage
30 of the various educational courses offered by local real



estate boards either under their own auspices or through Canadian universities, the Canadian Association of Real Estate Boards or the National Association of Real Estate Boards (U.S.) In this manner the trust companies have been able to develop personnel capable of counselling clients in all aspects of real estate practice.

2.24 With the tremendous expansion of building in the residential, commercial and industrial fields since the close of World War 2, the need for trained and qualified appraisers has become more urgent than ever. Huge investments are being made in mortgages and income properties, a sizeable volume of them through the medium of trust companies, acting for themselves or for the account of others. This has placed a heavy responsibility upon these companies to ensure that expert appraising is available. Trained and qualified appraisers are being developed by the American Institute of Real Estate Appraisers, the Appraisal Institute of Canada, and to a lesser degree by the Society of Residential Appraisers (residential properties only) and the Society of Industrial Realtors (industrial properties only). Individuals holding designations in these appraisal groups are now to be found in the staffs of trust companies. The standards of qualification have become increasingly high and the number of appraisers being qualified is barely keeping pace with the demand for their services. In consequence trust companies are lending every encouragement to members of their staffs to obtain the necessary qualifications.

(f) Investment Powers in Individual Trusteeships¹¹

Canadian trust companies derive their investment



1 powers from the document that appoints them to act. In
2 the case of estates and continuing testamentary trusts
3 the investment powers must be sought in the will.

4 In a living trust an investment authority is almost
5 invariably included in the document creating the trust.

6 In agencies, the investment power is normally retained
7 by the principal, but certain limited power is normally
8 retained by the principal, but certain limited powers
9 may be delegated to the trust company. In those
10 situations where the will or trust document, generally
11 through oversight, omits reference to the matter of
12 investments, the law of the province in which the trust
13 is performed will govern.

14 2.26 The investment powers conferred on trust companies
15 by the various appointing documents under which they
16 administer estates and living trusts fall, with very
17 few exceptions, into the following categories:

18 1. Such investments as are permitted under
19 the relevant provincial Trustee Act;

20 2. Such investments as are eligible under
21 the federal Canadian and British Insurance Companies
22 Act (without applying the quantitative restrictions
23 of the Act);

24 3. An unrestricted investment power;

25 4. A combination of two or more of the above,
26 when the appointment places ~~quantitative~~ restrictions
27 on the designated categories.

28
29 ⁱⁱ Investment in relation to pension funds is dealt
30 with separately in 2.48 and 2.57



2.27 Canadian trust companies generally do not at present maintain their records in such a way as to show a breakdown or classification on an aggregate basis of the various types of investment powers under which they are operating. However, as a result of limited sampling tests in representative companies, some general conclusions may be drawn.

(a) The majority of the appointing documents from which the trust companies derive their investment powers and under which they are operating today fall within category 1 or 2 above.

(b) There is a clearly defined trend now apparent to enlargement of the investment powers formerly conferred. Modern wills and trust documents commonly confer investment powers which fall in category 3 or 2 above. If this trend persists, therefore, the statement made in (a) above will soon cease to be applicable.

From the standpoint of both the beneficiaries and the trust companies this trend is significant and desirable. A number of reasons may be advanced in explanation of it:

(i) There is a growing recognition by the public of the highly developed technical and investment skills that are now available in many trust companies.

(ii) The experience of investors generally with inflation in the post-war period, with



1 the resulting reduction in purchasing power
2 of the dollar, has demonstrated the inadequacy
3 in this context of fixed income securities
4 as an exclusive investment medium.

5 (iii) The trust companies are at present
6 administering a substantial number of estates
7 and trusts for which the governing investment
8 powers were written in the depression of the
9 '30's, or were largely influenced by it.

10 In that environment security of principal
11 was the paramount consideration. It is
12 probable that the majority of estates and
13 trusts now being administered within the
14 confining restrictions of provincial trustee
15 Acts had their origin in that era.

16 (iv) More people in recent years have accepted
17 the idea of owning common stocks because of the
18 broad advance that has occurred in stock prices
19 generally in the post-war period. The increase
20 in the popularity of mutual funds, with their
21 emphasis on participation in the common shares
22 of growth companies, has no doubt contributed
23 significantly to the broader awareness on the
24 part of the public of common stocks as a desir-
25 able investment vehicle over the longer term.

26 2.29 As mentioned in 2.25 it should be kept in mind
27 that in a number of cases the limited investment powers
28 which control the companies today can be attributed
29 to oversight on the part of the testator or settlor
30 in not dealing with the matter of investment authority



1 in the will or trust document. Even today completed
2 wills and, less frequently, trust documents suffering
3 from this defect are regularly deposited with trust
4 companies by persons who have not discussed the appoint-
5 ment with the company, and many of them are corrected
6 when the matter is drawn to the attention of the testator
7 or settlor.

8 Far more people today discuss the planning of
9 their will with the trust company, and the companies
10 generally recommend an unrestricted investment power.
11 In any event, the greater importance attaching to the
12 subject of investment nowadays is likely to ensure that
13 a larger proportion of wills will contain an appropriate
14 investment power.

15 2.30 So far as agencies are concerned, the bestowal
16 of any investment authority is unusual. An agency
17 relationship is established with a trust company to
18 assist the principal with the custodianship or invest-
19 ment management of the assets comprising the agency.
20 The principal normally retains final investment authority,
21 and the governing agreement simply provides for the trust
22 company to act in accordance with his instructions.

23 (g) Provincial Trustee Investment Legislation

24 2.31 It has been stated earlier that unless a
25 different authority is given in the appointing document,
26 a trustee is limited in its choice of investments to
27 those which are authorized by the law of the province
28 where the trust is performed.

29 The schedule which follows outlines in summary
30 the legislation of all the provinces. Broadly speaking,



obligations of Canada and the provinces, and, subject to exceptions noted in the schedule, municipal debentures, corporation first mortgage bonds, mortgages on real estate, loan company debentures and trust company guaranteed investment certificates -- this fairly describes the scope of trustee investment authority across Canada. (There is statutory provision in Ontario and Prince Edward Island under which the authority may be widened to the extent prescribed if approved by a Court. It is of no practical significance for the purposes under discussion.)

Notable exceptions are provided by Nova Scotia and British Columbia which allow investment in the preferred shares of Canadian corporations, and Nova Scotia is unique in permitting investment in the common shares of Canadian companies, subject to qualitative restrictions up to 15 per cent of the total assets of the trust.

(h) Recommendation for Widening Statutory Powers

2.32 Almost all of this legislation is much too restrictive by modern investment standards and the various Acts obviously bring about inequalities in the investment opportunities available to estates and trusts in different provinces. To remove these regional inequalities and to improve the position of the beneficiaries of all estates and trusts consistent with modern views of prudent investment, it is recommended that all of the provinces should liberalize and standardize the provisions of their trustee acts where necessary to permit investment in:



1 (The definitions which follow are summarized from
2 R.S. Ontario 1960, Ch. 408, Sec. 27.)

3 (1) Obligations of or guaranteed by the
4 Government of Canada.

5 (2) Obligations of or guaranteed by any province
6 of Canada.

7 (3) Obligations of or guaranteed by any
8 municipality in Canada including those issued for school
9 purposes or secured by taxes or rates levied under the
10 law of any province.

11 (4) Obligations of or guaranteed by the
12 Government of the United Kingdom.

13 (5) Obligations of or guaranteed by the
14 Government of the United States of America.

15 (6) First Mortgages, charges or hypothecs
16 on real estate in Canada up to $66\frac{2}{3}$ per cent of the
17 appraised value and NHA insured loans.

18 (7) Obligations of a corporation that are
19 secured by the assignment to a trustee of payments
20 that the Government of Canada has agreed to make,
21 sufficient to cover interest and principal.

22 (8) Debentures of any loan corporation licensed
23 under the law of the province.

24 (9) Guaranteed investment certificates of
25 any trust company licensed under the law of the province,
26 and also to permit investment as listed below provided
27 that the aggregate market value of such investments
28 shall not exceed 35 per cent of the market value of the
29 whole trust:

30 (10) Obligations of a Canadian corporation

	Newfoundland	Prince Edw. Isl.	New Brunswick	Nova Scotia	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
I. Government Bonds and Debentures										
a) Issued or guaranteed by the Government of Canada	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
b) Issued or guaranteed by any Canadian Province	yes	yes	yes	Province of N.S. only	yes	yes	yes	yes	yes	yes
c) Issued or guaranteed by any Canadian Municipality	City of St. John's only	Capital cities of Canada and provinces and cities in Ont., Que., N.B. or N.S. with pop'n 50,000 or more	In N.B. only	In N.S. only	In Que. only	yes	In Man. only	In Sask. only	yes	yes
d) Issued by certain approved public service organizations	no	Certain approved P.E.I. Hospitals and Hospitals secured by a mortgage	Trustees of any school district in N.B.	Certain specified hospitals, churches and also approved in-Charities Act" utilities of municipalities, all within N.S.	School corps in hospitals, churches and institutions under municipal authority or in Van. hospital guaranteed by any boards under Act of Canada or School or school or by Greater Winnipeg Water or Sanitary Distr. or Transit Comm.	School districts in Van. hospital guaranteed by any boards under Act of Canada or School or school or by Greater Winnipeg Water or Sanitary Distr. or Transit Comm.	Only co-op organizations authorized by special Act of Canada or School or school or by Greater Winnipeg Water or Sanitary Distr. or Transit Comm.	Any hospital or school authority in Alta.	Any school, hospital, irrigation or drainage authority secured by or payable out of taxes in Canada.	
e) Issued or guaranteed by the Government of the U.K.	yes	no	no	no	yes	yes	yes	yes	no	yes
f) Issued or guaranteed by the Government of the U.S.A.	no	no	no	no	yes	no	no	yes	no	yes
II. Corporation Bonds and Debentures										
a) Issued by incorporated companies and secured by a mortgage	no	no	yes	yes	no	no	yes	yes	yes	yes
b) Issued by incorporated companies and meeting certain specified conditions	no	no	If approved deposits required	no	those authorized to contract loans for construction & repair of churches, parsonages & cemeteries.	no	no	no	If approved	required dividend record
III. First Mortgages on Real Estate	In certain Mfld. cities only	In P.E.I. only	yes, to 66% of appraised value	In Canada only, to 75% of appraised value	In Que. only, to 60% of appraised value	In Canada only yes, to 50% of appraised value (if practically appraised value).	In Canada only, yes, to 66% of appraised value	In Canada only, yes, to 66% of appraised value	yes, to 66% of appraised value	In Canada only, to 60% of appraised value
IV. Guaranteed Investment certificates of trust companies	yes	Eastern Trust Co.	yes	yes	no	yes	yes	no	yes	yes
V. Debentures of Mortgage Loan Companies	approved list	Canada Permanent Mortgage Corp., Acadia Loan Corp. & Eastern Canada Savings and Loan Co.	If approved	If approved	If approved	registered in approved list Province	If approved	If approved	If approved	required certain paid-up capital stock, reserve fund and market value, also quantitative restrictions.
VI. Stock of Canadian Companies	no	no	no	preferred & common stocks subject to quantitative and qualitative restrictions	no	no	no	no	no	preferred stocks subject to quantitative and qualitative restrictions.

Note: MHA insured loans are also "legal" for trustees in some provinces.



1 secured by a mortgage or hypothec to a trust company
2 upon improved real estate of such corporation or other
3 assets permitted for trustees

4 (11) Obligations of a corporation secured by
5 the assignment to a trustee of payments that are payable
6 by a province of Canada sufficient to cover interest
7 and principal.

8 (12) Obligations of a corporation that has
9 paid, for five years immediately preceding, a dividend
10 equal to the rate upon its preferred shares, or a

11 dividend of at least 4 per cent upon its common shares

12 (13) Preferred shares of a corporation which
13 meets the qualitative tests of (12) above.

14 (14) Fully paid common shares of a corporation
15 that, for seven years immediately preceding, has paid
16 a dividend upon its common shares of at least 4 per cent.

17 (1) Investment Policies and Practice

18 2.33 The organization of a trust company investment
19 department and its general procedures are fully outlined
20 in 1.31 to 1.33. But while there can be general investment
21 procedures there can be no general investment policy for
22 individual trusteeships: there must be a policy specifically
23 appropriate to each account.

24 Investment policy of a trust company in relation
25 to a particular estate or trust is established in the
26 light of the following factors:

27 (1) The investment powers conferred by the
28 appointing document or, failing them, by statute.

29 (2) The requirements of the beneficiaries.
30 The variations in circumstances and need are unlimited.



Moreover, it is the responsibility of the trustee to balance and serve the often conflicting interests of both life tenants and remaindermen. The former most frequently is interested in maximum present income, the latter in longer term growth of capital.

(3) The impact of income tax and death duties. Lump sum payment of death duties may require substantial selling to realize cash or may necessitate the maintenance of reasonably short term reserves prior to the date of payment. Payment by instalments at specific intervals may require investment in maturities which will coincide. Income taxes have a continuing effect on policy and are a vital factor in determining the character of the portfolio. For example the 20 per cent dividend tax credit often influences the percentage of assets held in the form of preferred or common stocks.

(4) In those cases where the will or trust deed appoints personal trustees to act jointly with the corporate trustee, investment policy on occasion may not be that which the trust company would apply if acting alone. Policy may have to be based on compromise, since joint executors must act in concert.

2.34 While generalizations are clearly inappropriate in this area, it may be observed that in recent years trust companies have placed increasing emphasis on expanding the research facilities of their investment departments, with the result that rigorous tests are applied in formulating investment decisions. In the investment of capital funds, bond commitments tend to be concentrated in large and marketable issues of senior



governments or well established corporations, and in the case of equities, in the shares of those companies enjoying superior management and demonstrable earning power. As a corollary, capital in estates, trusts and agencies is not usually made available for investment in the undertakings of new and unproven companies even where an unrestricted investment power governs the operation of the particular account. The "prudent man" rule in trust investing imposes an overriding limitation on aggressive action in this investment area.

2.35 The lack of statistics on investment powers in relation to all assets administered, and the essential fact that there can be no general policy in individual trusts makes it very difficult to appraise the effect of trust company investment on the capital market. How is the substantial pool of funds held in estates, trusts and agencies invested? Set out hereunder is a breakdown of the estates, trusts and agencies assets account of all companies licensed to do business in Ontario for the year ending December 31, 1961, showing the distribution in very broad categories:

(000's omitted) % of Total

Real Estate	\$ 301,523	3.9
Mortgages and Agreements for sale	641,973	8.3
Bonds	5,514,797	71.5
Stocks	980,216	12.7
Sundry	224,247	2.9
Cash	50,377	0.7
Total	<u>\$7,713,135</u>	<u>100.0</u>

There seems little doubt that these figures reflect the considerable number of trusts governed by



documents unaffected by the modern trend discussed in 2:27-8. As to the proportion of mortgages this warrants special comment.

2:36 While the above breakdown shows that 8.3 per cent of total E T & A assets are represented by mortgages and agreements for sale, it must be noted that agency assets bulk large in this total figure. Inasmuch as mortgages are not a typical agency account holding, it is certain that the percentage holding of mortgages for estates and trusts, if agency assets are excluded, is significantly higher than 8.3 per cent.

A second factor which affects the interpretations of these figures is that most companies avoid mortgage holdings in small estates. Mortgages are a desirable investment where adequate liquidity and sufficient income for the needs of the beneficiaries are afforded by the other holdings in the account. However, mortgage yields may be made available to the small estate through common trust funds, discussed below.

It is accepted trust company practice to make most of their mortgage investments for estates and trusts in conventional, residential mortgages for a five to ten year term. Construction loans (except in large trusts) are not generally considered suitable and this limits investment in NHA loans except by way of purchase. Commercial and industrial mortgages are usually taken only for large estates and trusts.

2:37 As a result of legislation introduced in Ontario in 1950 and 1952 it became possible for a trust company registered in the province to invest trust money in one



or more common trust funds administered by the company. Similar legislation now exists in British Columbia and Alberta. To date five trust companies registered in Ontario have availed themselves of this legislation and have established common trust funds. One such company operates three separate funds, two of which limit investment to Trustee securities and the other is unrestricted. The remaining four companies each operate a single fund limited to such investments as are permitted under the Ontario Trustee Act.

Set out hereunder is a recent breakdown on an aggregate basis of the assets held by these seven separate common trust funds. The number of estates participating is also shown.

Assets Held for Common Trust Funds

	<u>Total</u>
1. Canada bonds over 3 years maturity	\$ 1,785,296
2. Canada bonds of 3 years maturity and under	531,516
3. Provincial and municipal bonds	9,251,203
4. Corporation bonds	868,780 (1)
5. Other bonds	229,204
6. Mortgages	2,289,272
7. Stocks	344,351 (2)
8. Cash	<u>234,197</u>
Total assets held for common funds	<u>\$15,533,819 (3)</u>

Total number of participating accounts 1,833 (3)

2.38 It was expected that through the medium of a common trust fund a number of benefits would result:

(a) Through the purchase of units in a particular fund a small estate or trust would obtain at no extra cost a broader investment



1 diversification than would otherwise be the
2 case.

3 (b) Higher yields would be obtained because
4 of the emphasis placed by the fund on investment
5 in higher coupon bonds (provincials and
6 municipals) and mortgages (see above breakdown).

7 (c) From the standpoint of the trust
8 company considerable administrative economies
9 would result, as well as greater flexibility
10 in the management of the individual securities
11 comprising the fund.

12 In the main these benefits have been realized
13 but the lack of wider acceptance of the common trust
14 fund device by trust companies can be attributed to
15 technical difficulties which have not yet been solved.
16 2.39 Trust companies do not normally make any active
17 use of the voting power that is in their hands by virtue
18 of their holding of shares in hundreds of corporations
19 for estates, trusts and agencies. Except under unusually
20 critical circumstances, they tend to support the existing
21 management and the status quo. Although it would
22 probably be beneficial if corporate investors played
23 a more dynamic role in relation to the corporations in
24 which they have important investment interests, as
25 a practical matter it is impossible for a trust company
26 to participate actively in the affairs of all those
27 companies whose stock is included in assets under
28 administration.

29 Footnote to 2.37 1. Total investment in corporation bonds
30 is divided between loan company debentures held in one only
 of the six restricted fund reported and other corporation
 bonds in the one unrestricted fund.



1 2. Total investment in stocks is confined to the one
unrestricted fund reported.

2 3. Total assets of the one unrestricted fund reported
3 are \$1,330,242 and the total number of participating
accounts in it is 119.

4 However, when a trust company holds a
5 substantial stock interest in an individual company,
6 particularly in the case of a private company, it is
7 usual for it to have one of its own officers on the
8 board. In these circumstances, the company's affairs
9 are watched closely. In his capacity as a director,
10 the trust company officer has a dual responsibility:
11 confidential matters relating to the company of which
12 he is a director cannot be disclosed, and the interests
13 of the beneficiaries whom he represents must always
14 be protected. The latter is paramount.

15 2.40 Opposing interests between groups of clients
16 can arise in circumstances such as where a proposal to
17 alter the capitalization of a company appears to benefit
18 the common shareholders over the preferred shareholders,
19 or where a company makes an offer for the shares of
20 another company which is clearly more favourable to the
21 offering company. In such cases a trust company will
22 generally seek some compromise arrangement which will
23 do justice to both sides so that a single consistent
24 course may be followed. If this is not practicable the
25 trust company must then take an impartial position and
26 pursue that course of action, in relation to each
27 account, which is in the interest of the individual
28 trusteeship. It is irrelevant that the trustee is
29 taking two different positions.
30



(j) Pension Trusts

2.41 The rapid growth of industrial pension plans in the past 20 years may be attributed to many factors, among them:

(a) The tax exempt status of both employer and employee contributions and pension fund investment income.

(b) The economic prosperity during and after World War 2.

(c) The pressure of union demands.

(d) The recognition of the need for old age security, arising out of:

(i) The increasing proportion of the population reaching age 65 and increasing life expectancy after age 65.

(ii) A greater proportion of the population moving from self-employed to employed occupations, and from rural to urban life.

(iii) Acceptance of compulsory savings through payroll deduction, with pension savings representing an important base to all forms of saving.

(iv) A transfer of responsibility of care for the aged from the family unit to private and public institutions, or the achievement of self-dependence through formal pension plans and government old age security programs.

2.42 The Canadian employer has alternatives in



1 implementing a pension plan. These fall into the
2 two broad general classifications of "insured" plans
3 underwritten through the Government Annuities Branch
4 and life insurance companies, and "trusteed" plans
5 administered through trustees. Until recent years, the
6 insured plan represented a contractual obligation under
7 which the insurer promised to pay certain pre-determined
8 and guaranteed benefits on receipt of the necessary
9 premium payments by the employer. A trusteed plan
10 represents a binding obligation on the part of the
11 trustee to hold and keep invested pension fund moneys
12 placed with it by the employer, for the benefit of the
13 employees and their beneficiaries.

14 While both insurers and trustees are parties
15 to the operation of pension plans, their roles and
16 responsibilities are quite different. Historically,
17 insurers have been "underwriters" of pension plans.
18 Trustees are administrators of pension trust funds.

19 2.43 The pension trust fund is established under
20 a trust agreement which spells out the functions
21 and responsibilities of the trustee. Contributions
22 made under the pension plan are accumulated in the
23 trust fund which is held and invested under the
24 management of a trustee or of an incorporated body
25 called a "Pension Fund Society". Pensions are paid
26 directly from the trust fund, but in the case of
27 smaller trusts, annuities may be purchased with
28 moneys from the fund. The status of the plan is
29 periodically reviewed by a qualified actuary to determine
30 whether the fund and current and past service contribution



rates are sufficient to meet present and future liabilities as provided under the terms and provisions of the plan.

2.44 The pension plan represents a long term investment of employee and employer contributions toward a continuing goal of pensions for retiring employees. It will be recognized that the cost of a pension is not the same kind of insurable risk which is covered by life insurance. A retired employee cannot live a long time suddenly. The risk is longevity, not mortality, and there is time and means to provide for it. In fact, where a fund is established, the risk of abnormal longevity is offset by abnormal mortality.

It should also be recognized that the successful achievement of the full benefits of the plan for every employee must ultimately depend upon the financial resources of the employer. This applies whether we are considering contributions to a trustee plan or premiums under an insured plan.

2.45 The following table is prepared from Dominion Bureau of Statistics information and shows the distribution between trustee and insured plans at December 31, 1960:

	No. of Plans	% of Whole	No. of Employees	% of Whole	Assets (millions)	% of Whole
Trusteed Pension Plans	1,140	14.8	1,009,127	68.3	3,616	75.0
Life Insurance Group Annuities	6,564	85.2	469,339	31.7	1,208	25.0



1 ("Trusteed Pension Plans" includes funds held in trust
2 by personal trustees and pension fund societies as well
3 as trust companies).

4 2.46 It is obvious that there are cogent reasons
5 for the increasing popularity of trustee plans. The
6 reasons are not material to this account. Undoubtedly,
7 however, a cardinal factor has been the availability,
8 as trustee, of the trustee corporation with its
9 financial responsibility and investment skills. Trust
10 companies are ideally equipped to perform this function.
11 Out of the 1,140 trustee pension plans cited in the
12 table above, 903 employ trust companies as trustee
13 and in addition the companies act as agents for the
14 personal trustees of a large proportion of the remaining
15 funds.

16 2.47 Trust companies have made a number of
17 contributions in the pension field:

18 (a) As a result of experience they have
19 been able to offer constructive advice in
20 the early consideration stages prior to the
21 establishment of pension plans. (The over-
22 all responsibility for the development of
23 a plan belongs to the professional pension
24 consultant or consulting actuary).

25 (b) Over the past seven years they
26 have introduced pooled (or commingled)
27 investment funds to provide greater invest-
28 ment diversification for smaller trusts.

29 (c) They have established an enviable
30 record of investment performance. This has



1 been particularly notable with the gradual
2 removal of statutory investment restrictions.

3 (d) They have produced pension plan
4 studies which have been of considerable
5 assistance to government and private bodies
6 concerned with the broad field of old age
7 security.

8 (e) The flexibility afforded by the
9 trusteed plan has enabled them, the actuaries
10 and professional consultants to introduce
11 new methods of financing plans and many
12 additional benefits such as widows' pensions,
13 special disability, early retirement and
14 pensions based on average earnings in final
15 years of employment.

16 (k) Pension Fund Investment

17 2.48 Investment management is the prime function
18 of the pension fund trustee and investment performance
19 has a significant effect on plan costs or, alter-
20 natively, on the ultimate benefits paid to retiring
21 employees.

22 The investment powers of pension fund
23 trustees are determined by the employer and are
24 embodied in the trust document which appoints the
25 trustee. They will be subject to any overriding
26 restrictions imposed by government in proper exercise
27 of its jurisdiction. At the present time no provincial
28 government has exercised its power for this purpose
29 but the Canadian Parliament has done so in ruling
30 as to the kinds of plans which are to have the benefit



1 of the "deductible" provisions of the Income Tax Act.

2 There are today only two restrictions:

3 (a) Prohibition of investment in the
4 employer's debt obligations.

5 (b) Restriction on income from foreign
6 investments to 10 per cent of the income of
7 the fund.

8 These will be discussed later.

9 2.49. The large majority of trusts administered
10 by trust companies give the trustee unrestricted
11 investment power. A small minority restrict the
12 trustee to investments authorized by the Canadian and
13 British Insurance Companies Act but without invoking
14 the quantitative restriction. A very few trusts
15 limit investments to those eligible under the applicable
16 provincial Trustee Act. The employer may in a few
17 instances place a quantitative limitation on any one
18 investment category or any one security but this kind
19 of restriction is becoming unusual.

20 Under most trust agreements, the trustee
21 retains freedom of action within the investment powers
22 provided. Seeking approval on each investment or the
23 exercise of a veto provision has become impractical
24 and has largely been replaced by periodic discussions
25 with the employer regarding the portfolio of the fund
26 and the trustee's investment policy.

27 2.50 Since 1953 the Dominion Bureau of Statistics
28 and latterly our Association have assembled statistics
29 on the assets of trust funds administered by trust
30 companies. These figures should not be taken as an



index of trust company policy in pension fund investment. As explained later, investment was controlled from 1950 to 1957 by federal legislation which imposed the quantitative and qualitative restrictions of the Canadian and British Insurance Companies Act. There is no doubt that this^{is} still reflected in the statistics. Moreover, the more restrictive investment powers which apply in a minority of trusts as described in 2.49 affect a considerable proportion of all pension fund assets and so do conservative policies of some large employers.

In presenting the investment categories of pension fund assets in column A in the table below, we have also shown in column B statistics compiled by a consulting actuary on pooled funds maintained by three trust companies for pension fund investment.

	<u>A</u>	<u>B</u>
	Pension Fund Assets (Association Statistics of Trust and Agencies)	Assets of Pooled investment funds administered by three trust companies
1. Obligation of Governments (Canada, Provincials, Municipals) and their guarantees	30%	23%
2. Corporation Bonds	35%	35%
3. Mortgages	6%	11%
4. Common Shares	17%	31%
5. Other	4%	--

2.51 Over the last seven years, trust companies have established pooled or commingled trust funds as instruments for pension fund investment. These funds



1 are divided into units and the value of the units is
2 established by valuing the fund at monthly intervals.
3 Units may be purchased or redeemed monthly at the values
4 so established. Interest and dividend income may be
5 distributed or in some cases is capitalized.

6 2.52 Most companies operate at least two pooled
7 funds, one comprised of fixed interest securities,
8 the other of common stocks. Some trust companies operate
9 pooled funds with investment confined to narrower
10 categories, viz., government, municipal and corporation
11 bonds, mortgages, common stocks. If the trustee is
12 to invest in pooled funds, it must be authorized by
13 the pension trust agreement.

14 2.53 Employers with limited assets and a modest
15 annual contribution rate have increasingly been
16 authorizing the use of pooled funds to gain greater
17 diversification and investment opportunities previously
18 available only to the larger funds. Currently, over
19 700 individual funds administered by trust companies
20 as trustee or agent participate in commingled trust
21 funds. They hold units to the total value of
22 \$126,664,659, or approximately 9 per cent of the total
23 pension fund assets so administered.

24 Large funds do not usually employ pooled
25 fund investment since they are able to achieve adequate
26 diversification without this method. But some do
27 authorize their use, usually pooled funds confined to
28 mortgages or common stocks.

29 2.54 The investment of pension fund moneys which
30 they make in pooled funds (where they have investment



power to that end), is an indication of trust company policy in pension fund investment and the statistics contained in column B of 2.50 above will therefore be of interest. Investment in these pooled funds is confined to pension funds and this makes possible a general policy, since all participants have common objectives and have no distinctive problems (such as tax status) as do individual trusts.

2.55 Trust companies when so empowered have been substantial buyers of common stocks. In trusts for standard pension plans with unrestricted investment power, the range of investment in common stocks would be 20 per cent to 40 per cent of the total portfolio.

Common stocks are principally purchased for their long term capital growth potential, the capital growth and dividend income being in a sense considered as one. Profits arise from capital gains on sales as well as increasing dividend yield on the original cost of the shares. Low immediate stock yields are offset by investment in higher yielding fixed income securities - municipal and corporation bonds, lease-backs, other revenue real estate and mortgages. Trust companies are substantial investors in these categories.

More and more pension plans are being revised to improve the pension benefits, some to relate benefits to average earnings in the years immediately preceding retirement. This process and consideration of the effects of inflation make it imperative to employ common stock investment as a significant part



1 of any pension fund portfolio.

2 2.56 Since the preceding material will have conveyed
3 the impression that, in contrast with other individual
4 trusteeships, a "general" policy is possible for all
5 pension fund investment, it is necessary to point out
6 that there are inevitably some qualifications. These
7 involve extremely technical matters which excuse
8 further explanation. In addition there are variations
9 between plans in such matters as the timing and amount
10 of contributions and the anticipated pay-outs.

11 2.57 Other special features of pension fund
12 investment are:

13 (a) There is normally little need for
14 liquidity in the early years of a pension
15 fund when contributions will greatly exceed
16 pay-outs.

17 (b) The 20 per cent income tax credit
18 for dividends is not applicable to the deferred
19 taxation of pensions so that preferred stocks
20 are not normally attractive.

21 (1) Supervision of Pension Funds

22 2.58 During the period in which the federal
23 Taxation Division has been interested (for revenue
24 reasons) in pension plan supervision, policy has varied
25 widely on investment supervision. From 1950 to 1957,
26 the Minister of National Revenue ruled that investment
27 for pension funds must meet the requirements of the
28 Canadian and British Insurance Companies Act. In 1957
29 all restriction was dropped except a prohibition on
30 investment in the employer's capital stock or debt



obligations. In 1959 this limitation was broadened to allow funds to hold up to 10 per cent of the employer's capital stock not exceeding 10 per cent of the value of the fund, but subject to earnings tests. Currently there is no restriction except the exclusion of the employer's debt obligations and the restriction on foreign income to 10 per cent.

2.59 We strongly support this broadening of investment powers which has already produced great benefit. It has enabled greater diversification and improved yield. Investment in the employer's capital stock has been a much debated issue but we believe that its arbitrary exclusion quality and the investment may improve the job security and opportunity of the employees.

Trust companies are well equipped to apply the "prudent man" rule and arbitrary restrictions can only prejudice the benefits which their experience and skills may return. It is true that personal trustees may not merit equal confidence but we consider that our recommendation which follows will provide an adequate safeguard.

(m) Recommendations

2.60 We therefore recommend that at least once in each three-year period, the employer file with the Department of National Revenue:

(a) a copy of the latest actuarial report completed by a qualified professional actuary.

(b) a copy of the most recent financial



1 and asset statement of the fund issued by
2 the trustee (or insurer in the case of Deposit
3 Administration Plans).

4 The Association feel that it is impossible
5 to establish a satisfactory and valid standard of
6 "solvency" which would be applicable to every type of
7 pension plan. The report of the actuary is much preferable,
8 in this respect, to any mechanical test or formula.

9 2.61 We believe that the sanction of publicity
10 might well be sufficient to ensure the sound administra-
11 tion of plans. If thought advisable, however, the
12 Minister might be empowered to deregister a plan unless
13 the material filed indicates that

14 (a) the benefits provided by the plan
15 are being properly financed,

16 (b) the investment powers conferred
17 upon the trustee are being soundly exercised,
18 and

19 (c) the employer is using the appropriate
20 means to produce the benefits of the plan as
21 they become due.

22 The Department might be given the power to
23 extend the reporting period in particular cases where
24 stability characterized all important factors, but in
25 no case should the reporting period exceed five years.

26 2.62 For the reasons indicated in 2.59, we
27 consider that investment legislation is inadvisable
28 although the existing exclusion of employer's obligations
29 is fully justified. We recommend removal of the other
30 existing investment restriction which limits the



1 proportion of income from foreign investment. We
2 advance two reasons:

3 (a) As there is usually no income
4 advantage from investment in non-Canadian
5 fixed income obligations, it is to investment
6 in common stocks that the restriction really
7 applies. The range of highest quality
8 Canadian common stocks is so limited that
9 it is extremely difficult to obtain adequate
10 diversification over a broad range of industry.
11 (The actual range is broader than that which
12 is open to equity investment by Canadians).
13 This in turn leads, at times to over-pricing
14 in relations to comparable United States
15 stocks.

16 (b) The attractiveness of United
17 States investment is already limited by the
18 effect of the 15 per cent withholding tax
19 which cannot be recovered by pension trusts.

20 2.63 In recent years insurers have been entering
21 into "deposit administration" contracts for pension
22 plans of employers. The 1961 amendment to the
23 Canadian and British Insurance Companies Act permits
24 insurers to employ "segregated funds" for the invest-
25 ment of moneys received under these contracts. In
26 effect the insurer administers the contribution payments
27 in what is, or ought to be, a trust fund in much the
28 same manner as trustee pension funds. The insurance
29 element in some types of these contracts is purely
30 nominal and may provide, for example, that the fund be



1 employed to purchase annuities from other than the
2 contracting insurer.

3 The trust companies expect to compete
4 successfully with other services and institutions. They
5 recognize that it is in the public interest that new
6 methods and instruments should continually be evolved
7 to achieve the ends of the capital market and particular
8 social objectives. Indeed the essential feature of the
9 investment intermediary function has been the continuous
10 development of new institutions in the private sector
11 to serve new social purposes and increase saving. But
12 they also believe that there is merit in the specialization
13 of function which has characterized the operations of
14 Canadian institutions acting as investment intermediaries.
15 They hope that this breach of the principle will not
16 become a precedent for its repudiation.

TRUST BUSINESS IN CANADASection 3 - Collective TrusteeshipThe Trust Company as Investment Intermediary(a) History and growth of the Intermediary Function

3.01 The history of trust companies in the savings field (and of their loan corporation predecessors in many cases) goes back to the mid-19th century. At December 31, 1899, there were ninety-five loan, loaning land, and trust companies registered in Ontario alone and of these only seven were trust companies. All were in the savings business, accepting deposits and issuing G.I.C.'s or debentures. During this period the commercial banks were much more concerned with commercial banking than with this type of savings. Indeed it was not until 1960 that the banks actively offered and publicized the issue of deposit receipts for moneys. Savings (deposits, G.I.C.'s and debentures) with trust and loan companies in Ontario totalled at this time over \$8 million compared with \$200 million of savings deposits in the chartered banks.

Because of the broader powers granted to trust companies, the majority of the loan companies had their charters changed, while others achieved trust company status through mergers. This trend was further accentuated when, in 1921, legislation was enacted in Ontario clarifying and confirming the right of trust companies to receive, in trust, deposits and other funds for guaranteed investment. It had not been clear under the prior legislation whether receipt of these



funds created a trust or merely a debtor-creditor relationship.

3.02 The period from 1900 to 1939 was not one of great growth for trust companies as investment intermediaries, particularly in relation to the chartered banks. Bank deposits had increased to \$2,274 million by 1939 while savings (deposits, G.I.C.'s and debentures) with trust companies reached \$151 million and by loan companies, \$131 million. Since that time the importance of trust companies in their role as promoters and gatherers of savings from the public has increased very considerably.

The schedule which follows shows their progress relative to other institutions accepting savings, over the last ten years. It will be seen that while the rate of growth of savings held by trust companies and loan companies has been rapid, the amounts held are small in absolute terms relative to personal savings on deposit in the chartered banks. Similarly the schedule indicates that, while total deposits of the chartered banks represent 76.8 per cent of savings held by the institutions shown, that share has decreased with the increase going mainly to the credit unions and trust companies.

Compared with savings deposits only in the chartered banks, the increase from 1939 to 1960 is shown in the table below:

Savings with Three Institutions (in millions of dollars)

	<u>1939</u>	<u>1960</u>	<u>Increase</u>
Chartered Banks	2274	7215	216%
Trust Companies	151	1107	630%
Loan Companies	131	417	220%

Deposits with Institutions Accepting Savings
(in millions of dollars)

Dec. 31st	Chartered Banks - (Total Cdn. Deposits)	Credit Unions (Shares & Deposits)(1)	Quebec Savings Banks (Other Deposits)	Caisses Populaires Savings (2)	Mortgage Loan Companies Reg'd in Ontario (Deposits and Debitures) (3)	Trust Cos. - (Deposits & G.I.C's.)	Government Savings Institutions	Total
1960	12,921 (79.7%)	562 (3.5%)	289 (1.6%)	633 (3.9%)	498 (3.1%)	1,107 (6.8%)	189 (1.2%)	16,199 (100.0%)
1959	12,279	472	270	588	446	888	201	15,144
1958	12,690	413	278	522	396	798	195	15,292
1957	11,407	335	258	452	354	626	192	13,624
1956	11,162	287	252	413	327	593	188	13,222
1955	10,848 (85.0%)	250 (1.9%)	247 (1.9%)	353 (2.8%)	313 (2.5%)	574 (4.5%)	180 (1.4%)	12,766 (100.0%)
1954	9,683	199	227	312	283	503	167	11,374
1953	9,111	166	212	287	241	357	168	10,542
1952	8,636	141	200 E.	255	229	352	158	9,971
1951	7,973 (86.6%)	113 (1.2%)	190 E. (2.1%)	221 (2.4%)	219 (2.4%)	333 (3.6%)	158 (1.7%)	9,207 (100.0%)

Sources

(1) - Excludes Caisses Populaires

- (2) - Quebec Statistical Year Book, 1961

(3) - Reports of Ontario Registrar of Loan Companies

Other - Bank of Canada Statistical Summary



(b) Role in the Economy as Intermediary

3.03 The investment intermediary relates the savings of the nation to the demands for capital through the free capital market. The role of the chartered banks in accepting deposits and in supplying short term funds for the productive enterprise of the nation is well known. The role of trust companies is less familiar.

Like the other financial institutions which fulfill the role of investment intermediary in Canada, they are gatherers of savings. Since savings are savings are the supply side of capital accumulation, their importance to any industrial society cannot be over stressed. Certainly the capital equipment which savings have provided is the major contributor to the high standard of living which Canadians enjoy today. Its provision in the past and its supply in the future depend directly on a continuous flow of savings.

3.04 The saving of a nation is done by corporations and persons and it is most important that efficient facilities exist to channel the small savings of private persons into pools of savings which can be used by the groups seeking funds for capital expenditure. In Canada these facilities are provided by the chartered banks, life insurance companies, the new issue market^{II}, managed investment funds, private pension funds,

^{II} to a greater degree than the other intermediaries, the new issue market attracts funds from institutional investors as well as personal savers.



1 mortgage loan companies, the Caisses Populaires, credit
2 unions and, in their collective trusteeship function,
3 by trust companies. (Outside the private sector
4 in direct government borrowing as by Savings Bonds and
5 various government savings "banks".) All these
6 institutions attract savings in various ways, appealing
7 to differing motives and offering varying forms of
8 claims or contracts. Their competition to secure the
9 largest possible share of savings for their operations
10 provides the stimulus to saving. They "promote"
11 personal savings.

12 3.05 The trust companies' approach to the role of
13 promoters and gatherers of savings has varied within
14 the industry over the last forty odd years. As explained
15 below, trust companies are empowered to receive funds
16 in trust as deposits or for a fixed term. Some
17 companies have devoted their attention to seeking
18 personal savings; others have also sought deposits
19 from corporations, firms and other organizations. Some
20 companies have tried to restrict their deposits to
21 substantial amounts; others have put a ceiling on the
22 size of accounts they will accept. Some have for a
23 long time offered savings accounts with chequing ~~xx~~
24 privileges; some companies have only recently entered
25 this field. Some companies do not offer chequing
26 privileges on deposits; others do not accept non-
27 chequing deposits.

28 ~~xx~~ Technically a cheque is a bill of exchange drawn on
29 a bank. The orders drawn by depositors on other
30 institutions may not, perhaps, properly be termed
cheques but the public is not concerned with technicalities and there is no doubt that "cheque" is the term of common usage.



1 Again, there are differences in company
2 attitudes to the acceptance of moneys in trust for
3 fixed periods under Guaranteed Investment Certificates.
4 Some companies have actively promoted this field by
5 intensive advertising; others have not emphasized it.
6 Some of the companies did not accept money in this way
7 for a great many years. Whatever variations exist,
8 one element is common. The companies are all promoting
9 savings intensively and in vigorous competition among
10 themselves and with the other institutions which mobilize
11 savings.

12 3.06 The tables II-19 and 20 at pages II-24 and
13 II-26 of Appendix 2 give an analysis of how savings
14 held by trust companies are owned. (Note that four loan
15 companies are included in the tables.) They show that
16 98 per cent of the depositors are persons who together
17 hold 80 per cent of the total amount of deposits. Persons
18 constitute 96 per cent of holders of term obligations
19 (G.I.C.'s etc.) and hold between them 52 per cent of the
20 total amount of term obligations outstanding. Despite
21 the variations of company practices, the tables
22 indicate that it is persons and in particular the small
23 saver to whom the trust companies appeal most success-
24 fully for savings.

25 3.07 Many persons wish to keep a substantial
26 portion of their assets in a form that will give them
27 ready access to them without loss of capital. This is
28 the market the trust companies have long satisfied.
29 The introduction in recent years of the non-chequable
30 demand deposit account on which a higher rate of interest



1 is paid than on chequing accounts is evidence of the
2 trust companies' willingness to offer the highest
3 prudent rate of interest consistent with the investment
4 restrictions imposed upon them. Their willingness
5 to maintain longer business hours has drawn an
6 increasing number of individual savers to them. This
7 has been accomplished even though trust company offices
8 (until recent "savings branch" development) were not
9 always in the most convenient locations. Of course
10 trust company branch development in no way compares
11 with that of the chartered banks. They do business
12 at 217 offices in all of Canada in contrast to about
13 5,200 bank premises. While the savings held by trust
14 companies represent a small proportion of the total
15 savings of Canadians, it is clear that the companies'
16 deposit services and guaranteed investment certificates
17 fill a need of the population which is expressed by their
18 continuing growth.

19 3.08 In addition to promoting and gathering
20 savings, the investment intermediaries have the equally
21 important responsibility of channelling the pools
22 of savings collected by their efforts into their most
23 economic employment. This second aspect of the inter-
24 mediary's function is equally vital to the economy.

25 Just as the various institutions which perform
26 this function in Canada offer, in most cases, different
27 attractions to the saver (savings account, life insurance,
28 retirement pension, and interests in various kinds of
29 collective investment) so also many of them specialize
30 in particular demand areas of the capital market.



1 The new issue market supplies corporate enterprise
2 with equity capital and long term funded debt, the
3 chartered banks finance production with its short
4 term requirements, government institutions help finance
5 the public sector and the mortgage loan institutions
6 the construction industry. The others, including the
7 trust companies, invest in all types of financial
8 assets but the trust companies because of their special
9 skills in the real estate and mortgages business and
10 the nature of their liabilities, are able to direct
11 their investment to a considerable degree into
12 mortgages.

13 (c) Mortgage Lending in Canada

14 3.09 With the introduction of the first government
15 housing legislation in Canada in 1935, the pattern of
16 mortgage lending in this country changed.

17 In the early 1930's life insurance companies
18 furnished about 56 per cent of all mortgage loans
19 held by lending institutions, loan companies 24 per
20 cent and trust companies 12.5 per cent. By 1960
21 life insurance companies held 60.5 per cent, chartered
22 banks 17.2 per cent, loan companies 8.8 per cent and
23 trust companies 8.2 per cent. The table below
24 shows the increase of mortgage assets held by
25 institutions over the last twenty years together
26 with the relative importance of mortgages in the
27 investment portfolio of each institution:
28
29
30





1939		1960	
Mortgage Investment		Mortgage Investment	
(in millions of dollars)	(as % of portfolio)	(in millions of dollars)	(as % of portfolio)
Life Insurance Companies	391 18.5	3,412 42.4	
Loan Companies	154 71.6	495 78.9	
Trust Companies	88 40.7	463 37.1	
Banks and Other Institutions	45 -	1,273 -	
	678	5,643	

During this same period mortgage loans by government increased from \$189 million to \$1,949 million.

3.10 Operating under the Dominion Housing Act commencing in 1935, the loan and trust companies were able to join with the government to a very substantial extent in providing the necessary funds to pull the mortgage and house building industries out of the doldrums of the depression years. The loan term under the Act was 10 years on a 20-year amortization basis but subsequently material changes were introduced under the National Housing Act. The term and amortization bases were lengthened to 20 years, then 25, 30 and finally 35 years. At the same time the interest rate on Housing Act loans was changed from an agreed upon rate, approximately the same as the free market rate on mortgages, to a fixed rate established by the Governor in Council at a level "not to exceed the rate on long term government bonds by more than $2\frac{1}{4}$ per cent." concurrently, the right of the borrower to repay his loan was altered. Under the 1935 Act he could repay



1 at the end of the third year, but under later legislation,
2 this right was extended to permit him to repay at the
3 end of the third year or on any subsequent mortgage
4 anniversary date.

5 3.11 These changes in the term, rate of interest
6 and right of repayment have made it less and less
7 attractive for loan and trust companies to operate under
8 the National Housing Act. With the stretching out of
9 the term, the mortgage being locked into the investment
10 but the borrower having the short term right of repayment,
11 and with the low interest rate as compared with the
12 market rate on conventional mortgages, the loan and
13 trust companies were, to a large extent, squeezed out
14 of this large and fast growing part of the mortgage
15 lending industry.

16 To enable loan and trust companies to resume
17 their former substantial place in the field, it may
18 be necessary to change the existing one-way option which
19 enables the borrower to terminate NHA loans in the event
20 that the level of interest rates declines. Otherwise
21 the loan and trust companies will continue to concentrate
22 on conventional loans on existing and new housing and
23 commercial property.

24 3.12 In addition to institutional mortgage lending,
25 there are also very substantial sums invested by so-
26 called "private" lenders. A large portion of the funds
27 of this private lenders' sector has its source in
28 estate, trust, and agency funds and pension funds
29 administered by trust companies. This amounted to
30 \$641.9 million in 1961 and brings the total trust company



fore described in broad terms in Section 1 of the Brief since it is of general application to all trust business. In this section, we are dealing with legislation concerning the investment of funds received from the general public for guaranteed investment. Since some of this legislation invokes the restrictions applying to the investment of capital, those restrictions will be dealt with here more fully.

3.16 The broad description in 1.03 which likens the capital investment restrictions to the investment authority of Canadian life insurance companies applies most exactly to the legislation of the Dominion, Ontario and Alberta. Their legislation applies to both company and guaranteed funds. The Ontario authority is the widest of the three by inclusion of a "basket" clause for both company and guaranteed funds. The Dominion Act provides a basket for company funds only and it also restricts investments in corporate obligations and shares to those of Canadian corporations. Almost as broad as the other three, because it extends to corporate obligations and shares subject to earnings tests, is the law in Nova Scotia, Manitoba and Saskatchewan.

All of the Acts which permit investment in corporate securities and shares qualify the authorization by imposing a limitation upon the proportion of guaranteed funds or of capital and guaranteed funds which may be so invested. The proportion varies from 15 per cent to 25 per cent.

3.17 The legislation of British Columbia restricts



1 investment of company and guaranteed moneys to govern-
2 ment bonds and mortgages while that of Quebec enlarges
3 this narrow authority for the investment of guaranteed
4 funds to include first mortgage bonds of corporations.

5 Neither New Brunswick nor Quebec deals with
6 the investment of company funds in their trust company
7 statutes.

8 The schedule which follows shows these
9 provisions in more detail, though in very abbreviated
10 form.

11 3.18 Legislation restricting the investment of
12 trust moneys generally is a subject within the juris-
13 diction of each province and all of them have laws
14 which apply, of course, to individuals as well as
15 company trustees. These laws are described in 2.31
16 because of their application to individual trusts.
17 They are also of interest here because the Ontario and
18 Alberta Acts require that 50 per cent of guaranteed funds
19 must be invested in investments authorized for trustees
20 while the legislation of the Dominion, Nova Scotia,
21 Quebec, Manitoba and British Columbia includes trustee
22 investments as legal for guaranteed funds. In some
23 cases, this provides an enlargement of the powers
24 outlined above. New Brunswick confines the investment
25 of guaranteed funds to trustee investments.

26 3.19 The variation in all this legislation is
27 significant because most of the companies operate on a
28 national scale through the "branch" system described
29 in 1.36 to 1.45. A company, federally or provincially
30 incorporated, must conform to its own law of incorporation



1 and also meet the requirements of any province in
2 which it is licensed to do business. The effect of
3 this, as generally interpreted is that with respect
4 to business done in a province which did not incorporate
5 it, a company is governed by the most constraining
6 of the two sets of restrictions which apply to it.
7 There is therefore much to be said for a "uniform"
8 trust companies Act provided the investment powers
9 were at least wide enough to permit investment in
10 corporate obligations and shares subject to suitable
11 earnings tests.

12 A far more important feature of uniform
13 legislation, however, would be strong administration
14 of laws regulating the principles and practices of
15 sound trusteeship. Admittedly, such uniform standards
16 are difficult of achievement in ten jurisdictions.
17 This problem suggests an argument in favour of a
18 system of deposit insurance for Canada because it
19 could lead to voluntary submission of companies, wherever
20 incorporated, to a uniform standard of regulation
21 and examination.

22 3.20 Another type of legislation directed to
23 the security of the savings entrusted to the companies
24 is one which limits the amount of money which may be
25 taken on guaranteed account to a defined ratio with
26 the company's paid up capital and reserves. Parliament
27 limits this to $12\frac{1}{2}$ times for companies with Dominion
28 charter. Of the provinces having a provision of this
29 nature, Manitoba and Saskatchewan have a 5 times
30 restriction and Nova Scotia a 10 times limit. Here,

Investment Authorized by Legislation listed in Schedule to 1.06

	Parliament of Canada		M.S.	N.B.	P.Q.	Ont. *	Man.	Sask.	Alta. *		B.C.
	Co/Gtd	Co/Gtd	Co/Gtd.		Gtd	Co/Gtd	Co	Co/Gtd	Co/Gtd	Co/Gtd	Co
1. Government Obligations	Co/Gtd		Co/Gtd.		Gtd	Co/Gtd	Co	Co/Gtd	Co/Gtd	Co/Gtd	Co
2. Mortgages	Co/Gtd		Co		Gtd	Co/Gtd	Co	Co/Gtd	Co/Gtd	Co/Gtd	Co
3. "Trustee" Investments	Gtd		Gtd	Gtd	Gtd		Gtd				Gtd
4. First Mortgage Bonds of Corporation	Co/Gtd		Co		Gtd	Co/Gtd	Co	Co	Co/Gtd		
5. Other Corporate Obligations *** (Earnings Test)	Co/Gtd		Co			Co/Gtd	Co	Co	Co/Gtd		
6. Preferred Shares *** (Earnings Test)	Co/Gtd		Co			Co/Gtd	Co	Co	Co/Gtd		
7. Common Shares *** (Earnings Test)	Co/Gtd		Co			Co/Gtd	Co	Co	Co/Gtd		
8. Obligations Secured by Government Subsidy	Co/Gtd					Co/Gtd			Co/Gtd		
9. R. R. Equipment Certs.	Co/Gtd					Co/Gtd			Co/Gtd		
10. Leased Real Estate	Co/Gtd					Co/Gtd			Co/Gtd		
11. N.H.A. Mortgages						Co/Gtd			Co/Gtd		
12. World Bank Obligations						Co/Gtd			Co/Gtd		
13. "Basket" Clause	Co					Co/Gtd			Co/Gtd		
14. Loans on Security of Authorized Investment	Co Gtd	****	Co/Gtd			Co ** Gtd			Co/Gtd		Co

* Subject to requirement that 50% of Guaranteed Funds be invested in trustee investments.

** Special margin requirement except for 1, 2 and 4

*** Subject to limited proportion.

**** 1, 2 & 4 only.

Note: The Dominion Act narrows the categories 5, 6 and 7 to Canadian companies.



1 obviously, is another area for uniformity to enable
2 the companies to achieve their maximum usefulness in
3 the whole Canadian economy. The Association considers
4 that a multiplier of 15 should be uniformly adopted.
5 3.21 Finally, some of the Arts provide what is
6 termed a "liquidity ratio". Alberta and Ontario require
7 a company to keep 20 per cent and British Columbia,
8 24 per cent of their deposits in investments of a type
9 considered liquid. The main object, no doubt, is to
10 prohibit too high a proportion of investment in mortgages.
11 It may be said of this restriction that the normal rules
12 of prudence applied by the companies are more restrictive.

13 (e) Operation of Guaranteed Account

14 3.22 The guaranteed account of trust companies
15 consists of money received from the public in trust
16 on one of the following bases:

17 (1) As deposits, repayable on demand
18 or after notice. These savings accounts may
19 be either chequable or non-chequable. The
20 depositor receives a pass-book.

21 (2) As a term investment with the
22 principal repayable on a fixed date and interest
23 at an agreed rate payable half-yearly. The
24 investor receives a guaranteed investment
25 certificate or receipt as evidence of the
26 obligation which is fully registered.

27 In both cases, the investments made with these
28 funds are segregated from other assets administered
29 by the company and in addition, the trust company
30 guarantees payment of principal and interest and its



capital is subject to this liability. (This explains the term "guaranteed account").

3.23 All the larger and most of the smaller trust companies are registered to conduct business in Ontario and, as a result, conform to Ontario law relating to their guaranteed account. In Ontario, a trust company does not have power to take deposits by way of borrowing money or to borrow money by issuing debentures. The Loan and Trust Corporations Act specifically states that money received on either of the bases described above is deemed to be received in trust but the companies are entitled to retain the interest and profits resulting from the investment of such money in excess of the amount of interest payable thereon. The Act requires the trust company to definitely set aside and earmark securities and cash equal to the full aggregate amount of money received in its guaranteed account.

3.24 The growth in moneys received on guaranteed account by the Trust companies registered in Ontario is indicated by the following table:

(000 omitted)

Year	Deposits		G.I.C.'s		Total
	Amount	% of Total	Amount	% of Total	Guaranteed Account
1949	\$135,388	47.9	\$147,299	52.1	\$ 282,687
1954	249,448	49.4	254,935	50.6	504,383
1959	337,853	37.6	561,102	62.4	898,955
1960	416,645	37.6	691,984	62.4	1,108,629

(Figures taken from 1961 Report of the Ontario Registrar)

The above figures indicate that while both types of guaranteed funds have increased very greatly,



1 the growth in the term certificates has been at a
2 considerably greater rate than deposits. A more detailed
3 examination of each type of account appears later.

4 3.25 The importance in our economy of this function
5 of the trust companies has been discussed in (b) above
6 and the relationship of the trust companies to other
7 gatherers of savings in the private sector of the
8 economy is examined in 3.04. While government savings
9 institutions seem to be decreasing in importance, the
10 public sector has a large place in the whole picture.
11 For example, Canada Savings Bond issues outstanding
12 at December 31, 1961 amounted to \$4,079 million.

13 An indication of the relative importance
14 of some of the competitors for the savings of Canadians
15 is also given in Part II of the Study. (See particularly
16 Table II - 1 of that Study, facing page II-4).

17 (f) Guaranteed Investment Certificates or Term
18 Guaranteed Funds

19 3.26 The obligations issued for a fixed term
20 are variously known as guaranteed investment certificates,
21 guaranteed investment receipts, guaranteed trust certifi-
22 cates or receipts, or guaranteed trust investment
23 certificates or receipts. They will be called here
24 "guaranteed investment certificates."

25 Such certificates are generally issued in
26 minimum amount of at least \$100 although this minimum
27 varies from company to company. Larger denominations
28 are available in multiple of \$100 but they may be issued
29 for any amount. The maximum amounts accepted are
30 established by most companies from time to time and



1 these limits usually are dependent on the investment
2 opportunities available to the particular company.

3 The number and size of guaranteed investment
4 certificate accounts of trust companies is indicated
5 in Table II - 20, facing page II-26 of the Study. The
6 average value of all term certificates issued by the
7 17 companies is \$5,302.

8 3.27 There is no legal limitation on term of guaranteed
9 investment certificates. While in practice they may be
10 for as short a term as thirty days or as long a term
11 as ten years, the most popular term would appear to be
12 from three to five years. It might be noted that the
13 practice differs as between trust companies as to whether
14 a certificate is issued for funds repayable in less
15 than one year. Some companies receive such funds as
16 time deposits and issue a pass-book or just a letter.

17 Guaranteed investment certificates normally
18 are not redeemable by the company nor can a holder
19 obtain payment prior to maturity. However, some companies
20 undertake to repay, on request, in case of death and
21 may do so in cases of emergency. One company issues
22 guaranteed investment certificates which are cashable
23 at par at any time prior to maturity but, as in the case
24 of Canada Savings Bonds, the rate of interest paid is
25 less than if the certificate is held to maturity. Many
26 companies also issue guaranteed investment certificates
27 on an accumulative interest basis in which the payment
28 of the principal sum deposited plus interest compounded
29 to maturity is made on the maturity date.

30 3.28 The rate of interest offered on the certificates



1 depends on the term for which the certificate is issued
2 and on the level of interest rates at the time of issue.
3 The rate offered on maturities of up to one year follows
4 closely the money market rate and the rate on the longer
5 terms tends to be governed by the rate on bonds and first
6 mortgages. Typical rates in May, 1962 are shown in the
7 schedule to 1.60.

8 3.29 Guaranteed investment certificates are fully
9 registered certificates. They are generally purchased
10 because of the attractive interest rates and also
11 because of the willingness of trust companies to make
12 almost any maturity available within the trust company's
13 maximum term to suit the requirements of the investor.
14 This latter factor tends to reduce the need for a
15 secondary market for them.

16 (g) "Wholesale" savings

17 3.30 It has been explained that, in their inter-
18 mediary function, the trust companies are essentially
19 concerned with gathering personal savings and evidence
20 is adduced in this section which shows that the great
21 portion of G.I.C.'s and the bulk of deposit accounts
22 are held by small personal savers. There is, however,
23 a special function of increasing importance performed
24 by some of the companies with respect to corporation
25 savings. The function differs both on the "supply"
26 side and on the investment side.

27 3.31 Some trust companies (principally in the
28 large cities) have actively promoted this service to
29 their corporate, institutional and other organization
30 clients for many years. Long before the development



1 of a money market in Canada, they offered their
2 guaranteed investment certificates to these corporate
3 clients for the profitable short term investment
4 of temporarily idle funds, with repayment on specified
5 dates at a guaranteed pre-determined interest rate.

6 In some cases these funds were accepted as
7 time deposits at a special guaranteed rate of interest.
8 The blocks of money so received were in themselves
9 accumulations of capital -- hence the term "wholesale".

10 3.32 On the investment side, putting this capital
11 to use was a valuable function in a special area of
12 the capital market, viz., the money market. Even
13 though treasury bills, commercial paper and other short
14 term obligations (including those of provinces and
15 municipalities) could be purchased directly in the
16 investment market, the trust companies were able to
17 provide a service to their clients which continued
18 to attract their short term funds. Unfortunately
19 the statistics do not disclose what proportion of
20 G.I.C.'s and deposits are represented by these
21 "wholesale" savings. They are quite volatile and are
22 estimated to represent at times as much as 25 per cent
23 of the guaranteed account of the whole industry. The
24 rate of interest paid on this money closely follows
25 the money market. (See Chart II - 1 at page II - 24
26 of the Study). The funds received are normally invested
27 in short term securities, although companies which
28 receive substantial amounts of these funds can maintain
29 a proportion of longer term investment, much as they
30 do with deposits.



1 (h) Demand Deposits

2 3.33 Deposits are normally evidenced by pass-book
3 in which are recorded the deposits, withdrawals and
4 balance.

5 The rate of interest paid (which varies from
6 company to company) moves with broad changes in interest
7 rates. It has ranged from 2 per cent to 4 per cent
8 in the last 10 years. A survey of rates paid in May,
9 1962 will be found in the schedule to 1.61. Interest
10 may be calculated on minimum monthly, quarterly or
11 half-yearly balances.

12 3.34 Full chequing privileges are allowed on
13 depositors' accounts subject to the provision (seldom
14 if ever exercised) that the company may require a
15 specified number of days' notice before withdrawal.
16 There is no uniformity for charges for cheques. Some
17 companies make no charge, others allow one free cheque
18 per month per \$100 balance and charge 10cents to 15
19 cents for additional cheques. Others allow a "reasonable"
20 number of cheques before charging for excess debits. The
21 companies want "true savings" accounts and discourage
22 a "current account" use of deposits.

23 3.35 In recent years special or non-chequing
24 deposit accounts have been developed by a number of
25 companies. Withdrawals and deposits may be made at
26 any time but must be made at the company's office and
27 upon presentation of the pass-book. Interest is allowed
28 on the minimum monthly balance at a rate which is
29 generally 4 per cent and which, according to company
30 practice, may be compounded semi-annually, quarterly or



1 monthly.

2 3.36 Chequable deposits are much the more popular
3 type of deposit, accounting in 1960 for about 70 per
4 cent (in value) of total deposits. The growth of non-
5 chequable deposits has been rapid in recent years, however,
6 and has out-paced the rate of increase in the other
7 form.

8 The growth and use of the two types of
9 deposit together with an analysis of accounts by size
10 and by holder is covered in Part II of the Study.
11 Table II-19 at page II-24 indicates that as at October
12 31, 1961, demand deposits with chequing privileges
13 had an average balance of \$1,445 and those without
14 chequing privileges had an average balance of \$2,000.

15 (1) Clearing

16 3.37 Trust companies must have a means of clearing
17 cheques drawn against them which are deposited in
18 chartered banks and cheques drawn against chartered
19 banks which are deposited with trust companies. The
20 chartered banks maintain a clearing house system in
21 each major business centre across Canada. Trust companies
22 are permitted to use this system for a fee.

23 The trust companies' present use of the
24 chartered banks' clearing system is of real significance
25 in the operation of their business. Deposits constitute
26 about 38 per cent of their guaranteed account and about
27 70 per cent (by value) of deposit accounts in 1960
28 were chequable accounts.

29 3.38 At present, each trust company has an
30 arrangement with a chartered bank or banks to clear its



1 depositors' cheques through the clearing facilities
2 provided by the banks. At each clearing point used,
3 the company must operate a current account in one
4 branch of that chartered bank to which cheques drawn on the
5 trust company may be charged. A company may use the same
6 or a different bank at all clearing house points. If
7 a trust company has a number of offices in one clearing
8 house area, all its clearing must go through the one
9 branch of the bank which is looking after its clearing
10 and the company's cheques will be cleared as a unit
11 and not for its separate offices.

12 3.39 For the clearing services, the trust company
13 pays a clearing fee of 5 cents for each cheque to
14 its account plus \$100 annually together with the
15 following clearing house annual fees:

16 At Toronto and Montreal - \$300

17 At Vancouver - \$150

18 At all other points where there is an
19 established clearing house - \$100

20 The clearing fee of 5 cents per cheque plus \$100
21 annually accrues to the bank conducting the account
22 while the clearing house annual fee benefits the clearing
23 house. The clearing house fee of 5 cents per cheque
24 has been effective since November 1, 1958. It was 1
25 cent or $1\frac{1}{2}$ cents (depending on volume) from November
26 1, 1950 to 1954 and $2\frac{1}{2}$ cents thereafter to November 1,
27 1958.

28 3.40 An exchange charge is also made to trust
29 companies by banks for negotiating cheques on behalf
30 of their depositors if payable at points outside the
clearing house area. The charge is 20 cents although,



1 had the bank itself negotiated the cheque for the payee,
2 it would have charged only 15 cents. Most trust
3 companies, in fairness to their customers, absorb the
4 excess charge.

5 3.41 It is essential for the present operation
6 and future growth of the deposit business of trust
7 companies that a comprehensive system of clearing
8 should continue to be available.

9 (j) Investment Policy

10 3.42 In the discussion of investment in Section 2,
11 it was made clear that there could be no general
12 investment policy for individual trusts. While a
13 collective trust becomes a unit for the application of
14 policy, it is necessary to point out that, as might
15 be expected, the investment policy of the companies
16 varies sharply. This is discussed in the Study,
17 Appendix 2, at page II-35.

18 3.43 Guaranteed funds, as stated previously, must
19 be earmarked and set aside, distinct from the company's
20 assets, because they are received in trust. Company
21 funds consist of the paid up capital, surplus and
22 reserves of the trust company. As company funds are
23 the basis of the guarantee for money received on
24 guaranteed account (deposits and G.I.C. liability), the
25 company account may, in that sense, be considered as
26 a reserve. As a result, a company will keep that fact
27 in mind in determining investment policy for both
28 accounts and they should be considered together.

29 Subject to legal limitations, the governing
30 factors in investment on company and guaranteed account



are security, liquidity and yield.

3.44 The most important investment outlets have been government securities and mortgages. Over the past decade, these have accounted for 75 per cent to 85 per cent of total assets in capital and guaranteed account. The main change in the relative importance of asset items since 1951 has been a substantial drop in bond holdings which has been matched by an increase in mortgage holdings. The proportion of other assets has remained about the same. The table below shows the asset holdings for the companies registered in Ontario at December 31, 1950 and December 31, 1960.

Company and Guaranteed Accounts

<u>Assets</u>	<u>December 31, 1950</u>		<u>December 31, 1960</u>	
	Amount	%	Amount	%
	(000 omitted)		(000 omitted)	
Bonds				
Canada and U.K.	\$144,297	36.8	\$ 262,217	21.4
Provinces	38,779	9.8	103,598	8.4
Municipal	21,047	5.5	59,128	4.8
Other Bonds	31,085 ^x	7.9	197,839	16.2
Total Bonds	\$235,208	60.0	622,782	50.8
Stocks	8,773 ^x	2.2	37,045	3.0
Mortgages	102,887	26.2	452,686	36.9
Collateral Loans	14,376	3.7	51,564	4.2
Cash	19,841	5.0	38,108	3.2
Other Assets	11,363	2.9	23,697	1.0
Total	\$392,448	100.0	\$1,225,882	100.0

^x Stocks held on guaranteed account were included with "Other Bonds" in 1950.

Liabilities

Deposits	\$152,748	39.1	\$ 416,645	34.0
G.I.C.'s	166,658	42.5	691,984	56.4
Total	\$319,406		\$1,108,629	
Other Guaranteed	312	.1	1,688	.1
On Capital Account	11,531	2.9	15,503	1.3
Shareholders	61,199	15.4	100,062	8.2
Total	\$392,448	100.0	\$1,225,882	100.0

3.45 Of the substantial bond holding (50.8 per cent)



1 shown in the table, by far the largest proportion is
2 Canadian government obligations. As has already been
3 indicated, mortgages are a basic outlet for guaranteed
4 investment. They provide a higher yield than other
5 authorized investments. They also qualify as trustee
6 investments and this is important where, as in Ontario,
7 that qualification is a factor in the regulation
8 of investment of guaranteed funds. A survey of companies
9 indicated a diversity of practice as to the ratio of
10 assets to keep in mortgages. Generally speaking,
11 companies appear to invest most of their G.I.C. money
12 (other than short term) in mortgages. They may also
13 invest part of their deposit and short term money in
14 mortgages, the proportion depending on the composition
15 of the deposits.

16 3.46 Liquidity is a prime factor in trust deposits
17 and relates both to deposit withdrawals and to the
18 maturing of G.I.C. obligations. In order to meet these
19 demands, it is essential to have a proportion of short
20 term marketable bonds or other liquid assets. The exact
21 proportion will vary with individual company policy which,
22 in turn, will be governed to some extent by the nature
23 of the deposits and the nature and maturity dates of
24 the G.I.C. liability. Policy here requires a nice
25 balance.

26 The great bulk of Canadian cash assets of trust
27 companies consists of deposits in chartered banks. Non-
28 cash liquid assets comprise commercial paper, call loans
29 (mainly to security dealers and brokers) treasury bill
30 holdings and short term Canada bonds.



(k) Problems of Mortgage Investment

3.47 In discussing in (c) above the economic significance of mortgage investment, one problem which the companies face in this field was described in 3.10. Some other special investment problems in the mortgage lending area merit examination. The conventional mortgage on residential property, having a term of five years, has been the ideal investment medium since most guaranteed investment certificates are written on a five year term. When the term of the asset and the liability are the same, both can be at maturity to current rates. The company can compete in the market for renewal of the guaranteed investment certificate. In recent years the large volume of National Housing Act lending with a term of 20 to 30 and even 35 years, has presented strong competitive pressures upon trust companies to make conventional loans for similar long terms. For insurance companies with primarily long term obligations, this has presented no difficulty. It poses a real problem for trust companies particularly in periods of generally low interest rates. The law permits personal mortgagors to repay mortgage loans at the end of 5 years irrespective of the period for which the mortgage is made. As the lender has no similar option to call the loan, he is effectively prevented from obtaining the average of the interest rates prevailing over the longer term. If the original loan is made when interest rates are low, the borrower has the benefit of the low rate for the full term of the loan. Loans made during periods of high rates are paid



1 off or re-financed (once the first 5 years have elapsed)
2 as soon as interest rates decline. This "heads I win,
3 tails you lose" situation constitutes a real problem
4 to all mortgage lenders but particularly to trust
5 companies who must compete with market rates on a day
6 to day basis to retain funds represented by maturing
7 G.I.C.,s.

8 3.48 In periods of tight money, there is a tendency
9 for the balance in guaranteed account to decline. In
10 such a period bond prices will likely be down so that
11 a trust company is faced with the alternative of selling
12 bonds at a loss to cover withdrawals of deposits and
13 maturing G.I.C.'s or raising the rate of interest
14 paid on both in order to slow down the withdrawal and
15 attract other moneys. The loss on sale of investments
16 for guaranteed account is a direct charge against
17 income which make companies loath to sell. Instead
18 they tend to raise rates and to curtail mortgage loaning
19 in order that mortgage principal repayments may replenish
20 cash.

21 When money is easy, there is a tendency for
22 funds to flow to trust companies which, in turn, have
23 to find investments for them or else reduce their
24 rates of interest to slow down the flow of money
25 to them. Often, at such a time, there are not sufficient
26 mortgage investments available to readily take up the
27 inflow of funds.

28 3.49 In the spring of 1939 the Dominion Government
29 obtained detailed information from mortgage lending
30 institutions for the purpose of setting up a Central



1 Mortgage Bank, but this proposal was apparently dropped
2 with the advent of war. It was contemplated that lending
3 institutions would be able to sell existing mortgages
4 or pledge them against loans at a central mortgage
5 bank sponsored by the government. It would not be
6 necessary for the mortgages to be in good standing or
7 to conform to any particular pattern. Naturally, however,
8 the amount of cash or credit obtained would reflect
9 the condition of the loan and its relation to the value
10 of the security. The purpose of the proposed Central
11 Mortgage Bank was two-fold, to provide backing for
12 companies which required liquidity and could not make
13 cash collections because of depressed economic
14 conditions and to provide a greater amount of loanable
15 capital for the lending institutions. By working
16 through existing outlets for mortgage funds, the
17 government could obtain the benefits of their experience
18 and efficiency while encouraging house building by an
19 enlarged supply of credit. The lending institutions
20 would have additional funds for investment without
21 the problems of liability management which are involved
22 in seeking new funds.

23 3.50 The proposed Central Mortgage Bank differed
24 in its concept from the Central Mortgage and Housing
25 Corporation that was set up later. The Corporation
26 was designed primarily for the purpose of stimulating
27 lending on new residential construction with definite
28 and progressive standards of workmanship, materials
29 and planning. Nevertheless, under its Act of
30 Incorporation, the Housing Corporation was given



1 authority to enter into an agreement with a lending
2 institution and lend on the security of or purchase
3 existing mortgages from it. No policy or procedure has
4 been developed in this area of its authorized field of
5 operation. Since the establishment of the Corporation,
6 our Canadian economic situation has been without a
7 major set-back, and it has not been necessary for the
8 lending institutions to look to a "lender of last
9 resort". It is nevertheless important that the basis
10 of operation of this support feature should be
11 definitely established prior to an emergency. Only
12 thus will the institutions have advance knowledge of
13 the assistance it would afford in time of need.

14 3.51 This support function is important in our
15 economy, providing a parallel to the function of the
16 Federal Home Loan Bank in its loans to the Savings
17 and Loan Associations and the rediscount function of
18 the Federal reserve banks in the United States. Used
19 more broadly, the function could also be useful in
20 employing government funds for conventional mortgage
21 lending indirectly through purchase of mortgages from
22 mortgage loan institutions. The same object could
23 be accomplished by direct loans from CMHC pursuant
24 to authority under its Act of Incorporation, by way of
25 G.I.C. and debenture purchases.

26 3.52 The creation of a secondary market for
27 mortgages is often advanced as a means of bringing
28 more funds into the mortgage market. Mortgages might
29 well be a more attractive form of investment if they
30 were readily saleable.



1 A secondary market for NHA insured loans
2 is clearly practical. The system introduced last year
3 by CMHC of quarter-yearly offerings of blocks of NHA
4 mortgages by tender seems to have worked out reasonably
5 well. Distribution could be accelerated and broadened
6 if these insured mortgages could be used as collateral
7 by investment dealers in borrowing from chartered
8 banks so that inventories could be built up and carried
9 by the dealers to be offered to prospective buyers
10 on a continuing basis. There is some indication that
11 investment dealers would be interested and would make
12 a market, both buying and selling. If this became
13 possible, there would be a real secondary market for
14 NHA mortgages. It would necessarily be a market which
15 would deal in blocks and it seems unnecessary to try
16 to extend the market for NHA mortgages to provide
17 facilities for the small investor. His easiest and safest
18 way of participating in mortgage investment is to buy
19 the G.I.C.'s and debentures of the intermediaries.

20 3.53 A secondary market for conventional (uninsured)
21 mortgages appears a remote possibility. Several years
22 ago an interesting experiment was the planned establish-
23 ment of a weekly mortgage auction market in Toronto at
24 which mortgages were to be quoted, bought and sold in
25 a manner similar to the trading of shares on the stock
26 exchange. This plan had little success. First of all,
27 there was no demand, or at least the demand was
28 insufficient or was not adequately brought into play.
29 It also appeared that institutional lenders, professional
30 lenders such as lawyers and other agents and even



1 individual investors were not interested in selling
2 mortgages, although they may be interested in buying
3 them. The only group of people who appeared to be
4 interested in selling was probably composed of the
5 numerous former homeowners who had accepted a vendor's
6 second mortgage on selling their residences. Of course,
7 the upward trend of interest rates has made the prices
8 offered for low interest mortgages unattractive to
9 sellers.

10 3.54 The chief obstacle to a secondary market in
11 conventional mortgages is a group of technical consider-
12 ations. Some kind of uniformity would have to be
13 introduced before mortgages could be quoted in lots
14 or compared in value. While there is no difficulty in
15 connection with the general structure of the standard
16 mortgage contract, there is no uniformity in the terms
17 of repayment. There is also a problem of valuation.
18 Two mortgage contracts which appear to be identical
19 in principal amount, interest rate and term may differ
20 in worth because of the underlying security. It would
21 be necessary to establish a central appraisal agency
22 or at least a uniform method of appraisal before mortgages
23 could be readily auctioned. Even after the appraisal
24 of the mortgaged property was standardized, there would
25 remain differences in the value of the covenant -- the
26 borrower's ability and willingness to make payments.
27 Finally, there is the great difficulty in finding true
28 yields on mortgage contracts.

29 3.55 The technical problems which militate against
30 a market for conventional mortgages would not prevent



1 a comprehensive scheme for purchase by CMHC in pursuing
2 the support aspect of its function, or at least would
3 not prevent loaning against conventional mortgages
4 in a "relief" operation. Valuing a "lot" between
5 two institutions is not a too difficult operation.

6 3.56 Another possibility of developing a wholesale
7 market in mortgages lies in the development of mortgage
8 investing companies. A plan was announced a year ago
9 for the establishment of a company with a capitalization
10 of several million dollars to buy blocks of NHA
11 mortgages and finance the purchases through the sale
12 of debentures (or participation certificates of some
13 kind) to the public. It was not really a new idea,
14 but only a specialized form of the existing loan
15 company. Such a company would have to compete with
16 the established loan companies for money, and would
17 probably find difficulty in borrowing at as low a rate,
18 at least in its early years. In addition, it has been
19 the experience of the loan companies that there is not
20 sufficient spread between interest rates on borrowed
21 funds and interest rates on NHA mortgages to provide
22 for costs of operation and a reasonable profit. The
23 proposal endeavoured to overcome this difficulty by
24 projecting an over-all borrowing of some sixty times
25 capitalization, as compared with the present twelve
26 and one-half times capital and reserve restriction
27 on loan companies in Ontario. One stumbling block is
28 the long term commitment under NHA mortgages at a
29 fixed interest rate combined with short term pay-off
30 privilege of the borrower, mentioned previously.



3.57 A special function of some of the trust companies in the mortgage field is the "warehousing" of mortgages. It is close to an agency function but involves a more extensive service. These companies act as mortgage finders and vendors to large institutional investors. Usually guaranteed funds obtained from depositors are invested against the security of mortgages to builders on new construction, and when the buildings are completed and sold, the mortgages are then sold to the institutional investors.

This warehousing of mortgages is performed by the trust company as principal, but in most cases, general commitments to purchase are provided by the institutions before the trust company begins the operation.

(1) Profits and Reserves

3.58 The Study, Appendix 2, shows that profits on the shareholders' investment are relatively low in trust business. The net income of \$5,823,000 (for the 11 companies included in the Study) on shareholders' investment including all reserves was at the rate of only 6.5 per cent in the year 1960. In relation to total business under administration of \$7,002 million the net income was .0822 per cent -- less than 1/10 of 1 per cent. This is a small percentage having in mind the liabilities and responsibilities assumed in all departments of their business. Moreover, it must be kept in mind that the total of assets administered is understated by the excess of market values over book values in estate, trust, and agency account, and that



1 substantial revenues are obtained from corporate trust
2 and agency business which is not represented in the
3 balance sheet. It is also evident from the Study
4 that during the period from 1950 to 1960 the companies
5 paid out to depositors and G.I.C. holders a continually
6 increasing proportion of the income earned on invest-
7 ments in guaranteed account. Had it not been for the
8 increased scale of operations, profits would have
9 dropped sharply. This reflects the small margin of
10 profit in the industry and the intense competition
11 existing not only among trust companies but also among
12 all the intermediaries who gather savings.

13 3.59 The increase in the volume of business in the
14 last ten years made it essential to increase reserves
15 against possible losses on the realization of mortgages
16 and other investments. Investment reserves including
17 general reserves and undivided profits were increased
18 by roughly 80 per cent during the period 1950 to 1960.
19 Only slightly more than one-half of this amount was
20 from net income: the balance arose from premium on
21 capital stock issues and profit on the sale of assets.
22 Investment reserves excluding general reserve and
23 undivided profits, increased by just under 60 per cent
24 during the period and in relation to total balance
25 sheet assets (less cash and estate, trust and agency
26 account) actually decreased from 3.9 per cent at
27 December 31, 1951 to 2.1 per cent at December 31,
28 1960. Included in these figures are the reserves
29 against possible loss on mortgage loans. Although
30 they have increased by almost $2\frac{1}{2}$ times during the period.



1 they have shrunk from 2 per cent to 1.2 per cent of total
2 mortgages held.

3 3.60 It is noteworthy that even since the change
4 in the Income Tax Act in 1955, permitting small increases
5 on a tax-allowed basis, the percentage has increased
6 by only .3 per cent. Trust companies are, from a tax
7 standpoint, at a distinct disadvantage in the treatment
8 of reserves as compared with others in the savings
9 business; such as the chartered banks and credit unions.

10 In a period of rapidly expanding business, it is most
11 difficult to build up even the most essential reserves
12 on an after-tax basis which requires the appropriation
13 of \$2.00 of earnings for each \$1.00 added to reserves.
14 Some relief in this respect is clearly indicated not
15 only for the protection of the public but also to
16 maintain the flow of mortgage lending by the industry.

17 3.61 In 1955, after representations to the govern-
18 ment extending over a number of years, it was recognized
19 that it was in the public interest to permit the
20 establishment of accumulative reserves against conventional
21 mortgage investments. Section 85G of the Income Tax
22 Act was originally enacted primarily for the protection
23 of the hundreds of thousands of persons who entrust
24 their savings to the trust companies and the loan
25 companies. The companies had requested a permitted
26 reserve of 5 per cent with annual additions of $\frac{1}{2}$ of 1
27 per cent based on actual losses incurred on mortgage
28 loans by loan and trust corporations during the period
29 from 1929 to 1948 which amounted to 11.4 per cent (an
30 average of .57 per cent annually). However, the reserve



1 allowed was, and is, limited to 3 per cent of the amount
2 of conventional mortgages at the end of the year and may
3 be increased at the rate of only $1/12$ of this amount
4 each year. This is $\frac{1}{4}$ of 1 per cent of the principal
5 amount which may be deducted from taxable income.

6 3.62 It will be seen from the survey of the reserves
7 included in the Study by the University of Western Ontario
8 that during the period from 1955 to 1960 the companies
9 have been unable, under the formula, to increase mortgage
10 reserves at a rate even approaching $\frac{1}{4}$ of 1 per cent per
11 annum. This is due to the expanding scale of lending.
12 Moreover, while losses during the period have been
13 negligible, nevertheless, the possibility of future
14 losses has been increased by the steady lengthening
15 of the period of repayment and the increase in the loan
16 amount to $66\frac{2}{3}$ per cent from the former 50 per cent to
17 60 per cent. While both of these developments have
18 benefited the housing market and the borrower, they
19 have added to the risk of loss to the lender. Sizeable
20 losses are experienced only in periods of serious economic
21 dislocation from which the country has been free since
22 the early 1940's. However, prudence demands that reason-
23 able reserves be built up in good years to meet anticipated
24 losses. Moreover, it is in the public interest that the
25 financial institutions of the country be operated on a
26 conservative and sound basis. Experience in the industry
27 indicates that a reserve of 6 per cent, or roughly
28 50 per cent of the actual losses in 1929-1948 would be
29 reasonable. Unless the permitted rate is increased, it
30 will be many years before this figure can be approached.



3.63 It may be argued that a part of these reserves should be established from earnings remaining after taxes. As will be seen from the tables in the Study by the University of Western Ontario, substantial additional reserves are being built on an "after-tax" basis. But this is necessarily a slow and expensive process. Moreover the loan and trust companies compete for the savings of the public with the chartered banks, life insurance companies, credit unions and the government itself through Canada Savings Bonds. All of these enjoy a more favourable tax position than loan and trust companies. The credit unions pay no taxes although for all practical purposes they accept deposits in the same way as banks or trust companies. Taxation of the insurance companies in effect permits them to establish investment reserves on virtually a tax-free basis. The chartered banks are also permitted to maintain tax-free reserves on a scale which can be justified to the Minister of Finance. Canada Savings Bonds are sold at rates which do not reflect the real cost to the taxpayer. From the standpoint of equity therefore it would appear that more reasonable tax-allowed reserves should be permitted to loan and trust companies. Moreover the transfer of funds to these reserves is fundamentally only a deferment of tax and in the long run should not affect total tax collections assuming a more or less constant rate of taxation.

Accordingly, it is submitted that the maximum of reserves allowed under Section 85G of the Income Tax Act should be increased from 3 per cent to 6 per cent



1 and the rate of accumulation remain at 1/12 of this
2 amount per year which would have the effect of increasing
3 it from $\frac{1}{4}$ of 1 per cent to $\frac{1}{2}$ of 1 per cent.

4 (m) Investment Funds

5 3.64 It has been emphasized in 1.18 and elsewhere
6 in these pages that investment management is the primary
7 element in the two main functions performed by trust
8 companies. They have evolved a form of organization
9 in which it can operate efficiently and have developed
10 skills which make their services outstanding in this
11 field. It is essential to the performance of their
12 individual trusteeships including pension trusts and
13 to their role as investment intermediary. It has
14 resulted in an increasing demand for their services
15 as investment management agent.

16 3.65 A new service resulted from the amendment
17 of the Income Tax Act in 1957 which permitted individual
18 taxpayers to deduct from their earned income, within
19 certain limits, amounts paid into Registered Retirement
20 Savings Plans. This measure encouraged many persons,
21 particularly the self-employed, to provide for their
22 retirement years. The saver's contributions are
23 invested by the trustee and used to purchase an annuity
24 at a time elected by the client. While, strictly
25 speaking, these are individual trusts, their adminis-
26 tration and investment and the economic function performed
27 properly bring them under the collective trusteeship
28 heading.

29 This service affords a natural application
30 of the pooled fund technique applied in pension trust



1 investment. A pooled fund is simply a single trust
2 fund formed to hold the combined assets and future con-
3 tributions of the participating individual trusts.
4 It affords participants the increased security inherent
5 in diversified investment and maximum liquidity when
6 cash is required. Pooled funds are established for
7 several investment categories. The individual may
8 elect to participate in a pool holding bonds only,
9 common stocks only, or a balanced portfolio. Some
10 companies use G.I.C.'s for fixed income investment.
11 The funds are all, of course, open-end.

12 3.66 The increasing popularity of mutual and
13 other managed investment funds (they are called
14 investment trusts in the U.K.) has lead some trust
15 companies to offer a service of this type. It rounds
16 out the service which they offer to the small saver.
17 In particular the possibility of participating in
18 equity investment has had an increasing appeal to the
19 public. The trust companies' record of public confidence,
20 statutory regulation under which they operate, their
21 experience in collective trusteeship and their special
22 qualifications for investment management constitute
23 them a suitable instrument for this purpose.

24 3.67 The funds established are called "Investment
25 Funds". The pooled fund technique is again employed
26 with the price of "units" normally set once a month
27 or quarterly. The price is based on the total market
28 value of all the investments in the Fund's portfolio.
29 This figure is then divided by the number of units
30 outstanding and the result determines the capital unit



value at which such units may be acquired and redeemed.

Three companies are now in the field. They each offer a fixed income fund and an equity fund, all of them open-end. An investment management fee is the sole charge. There is no sales charge or "front-end load", because the marketing methods which may make such charges necessary are not used by trust companies. The expenses of the trust company in connection with its operation of the Fund, such as printing annual reports, monthly statements, office rental, etc., come from the investment management fee and are not an additional charge to the participants. The cost of buying and selling securities held by the Fund, i.e. brokerage commissions, is the only expense category normally charged.

The trust company functions as custodian, registrar, and investment manager of the Fund, values it, prepares income distributions, provides a market for the units and manages its investments. The annual fee for these services ranges from $\frac{1}{2}$ per cent to 1 per cent of the market value of the assets of the Fund. The Funds are established in various forms, usually by declaration of trust executed by the trust company.

The Investment Fund constitutes another method by which the trust company, in its intermediary function, can attract savings for employment in the capital market.

3.68 The table below shows the combined assets held in pooled fund investment under retirement savings plans and in investment funds operated by the companies as at December 31, 1961 or nearest valuation date. At that



1 date there were 14,103 participants under personal
2 registered retirement savings plans in operation
3 throughout the industry and there were 3,215 participants
4 in the investment funds operated by three companies.

	Retirement Savings Plans	Investment Funds *
5 Federal Government 6 and Guaranteed Bonds	1,107,366	801,963
7 Provincial Government 8 and Guaranteed Bonds	1,590,391	2,616,450
9 Canadian Municipal Bonds	399,122	975,597
10 Other Canadian Bonds	3,448,579	3,210,107
11 Mortgages	721,215	1,885,604
12 Stocks	20,364,996	5,689,868
13 Other Assets	2,530,911	850,671
14		
15 Total	\$30,162,580	\$16,030,260

16 * Three fixed income funds and three equity funds.
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TRUST BUSINESS IN CANADASection 4 - Corporate Trusteeships

The Trust Company as an Adjunct to the New Issue Market

It has been estimated that Canadian industrial and commercial corporations have, during the past ten years, raised the undernoted amounts of capital through funded debt financing and the issue of shares.

<u>Year</u>	<u>Debt Financing</u>	<u>Share Issue</u>
1952	\$ 556,392,000	-
1953	336,295,800	-
1954	594,732,800	\$172,000,000
1955	585,795,900	421,000,000
1956	860,184,400	687,000,000
1957	1,045,004,100	546,000,000
1958	769,155,000	309,000,000
1959	420,052,550	404,000,000
1960	535,011,000	222,000,000
1961	609,909,500	Not yet available

Omitted from the above table are bank borrowings and the immense sums of short term obligations estimated at up to a billion dollars as of April 30, 1962 issued by such companies. Likewise, no reference has been made to the many instances of secondary distributions of shares involving public offerings.

In the raising of the vast majority of this capital, the services of the corporate departments of the Canadian trust companies have played an essential role.

4.02 In the case of secured borrowing, a company



1 by means of a mortgage conveys all or part of its
2 property to the trustee but in trust for the benefit
3 of the holders of the company's obligations issued
4 under the mortgage deed and authenticated by the trustee
5 for purposes of identification. Where unsecured issues
6 are involved, the technique is essentially the same
7 although the deed will not contain any mortgage.
8 Instead, it is likely to contain important covenants
9 on the part of the borrowing company for the protection
10 of those acquiring its obligations.

11 4.03 At their inception, corporate deeds of trust
12 designated individuals as trustee but it was soon found
13 that trust companies were better equipped to perform
14 these duties. Towards the end of the nineteenth
15 century, the use of corporations as trustees became
16 common and is now the invariable practice. This is
17 due not only to their permanence and financial
18 responsibility but also the advantages which result
19 from the appointment of an independent, professional,
20 experienced trustee.

21 4.04 Whatever the form of the deed, duties are
22 imposed upon the trustee which frequently involve the
23 exercise of important discretions which have few
24 parallels in trust business either as to difficulty or
25 the magnitude of the responsibility. Typical examples
26 are the discretionary release of important parts of the
27 mortgaged premises on such terms as the trustee may
28 determine as not being prejudicial to the interests
29 of the bondholders or the duties falling upon the trustee
30 when an event of default has occurred which the borrowing



1 company may be unable or unwilling to cure.

2 4.05 Because the nature of the obligations imposed
3 upon the trustee varies so much with the terms of any
4 given issue, it is difficult to state the cost of
5 the service. The principal fees earned by a trustee
6 of a corporate issue are an "Initial Fee" covering
7 the work and responsibility involved in entering into
8 the trusteeship, delivering the deed and issuing the
9 obligations and an "Annual Fee" covering the administra-
10 tive duties and responsibilities over the life of the
11 issue. These do not cover the issue of additional
12 obligations upon satisfaction of conditions precedent,
13 the disbursement of trust moneys, the operation of sinking
14 funds, redemptions, special services rendered in default
15 situations, reorganizations, the holding of bondholders'
16 meetings and other non-routine matters. In these
17 situations the fees are based upon piece rates or the
18 time and responsibility involved.

19 4.06 Most Canadian trust deeds contain as part
20 of their security provisions a "floating charge" on the
21 whole undertaking of the borrowing company. Enforcement
22 of this security enables the appointment by the Court
23 of a receiver and manager who continues to operate
24 the undertaking as a going concern pending reorganization
25 or sale as a going concern. This is work which requires
26 highly trained and skilled personnel which only very
27 large companies can maintain and make available at
28 irregular intervals for such extraordinary duties.
29 Canadian trust companies which undertake corporate
30 trusteeships frequently ask for and are normally granted



1 the appointment as receiver and manager in enforcement
2 actions under trust deeds of which they are trustee.

3 If, following the appointment of a receiver
4 and manager, it transpires that reorganization of the
5 borrowing company is not feasible, nor its sale as a
6 going concern practicable, its operations will be
7 discontinued and thereafter the trust company will
8 act solely as a receiver to bring about the liquidation
9 of the company's assets and the payment out of the
10 proceeds in accordance with the priorities governing
11 the situation.

12 4.07 The corporate trust departments of the trust
13 companies perform many other functions in addition
14 to those relating to the appointments discussed above,
15 a substantial number of which arise as a direct outcome
16 of these appointments.

17 (a) Bondholders' Meetings - During the course
18 of a normal trusteeship, a company may, for
19 its corporate purposes, seek a substantial
20 revision of the terms of its trust deed. This
21 will generally involve obtaining the consent
22 of a specified majority of the bondholders
23 whose consent may also be necessary in
24 enforcement proceedings to a proposed plan
25 of reorganization.

26 In those cases, the trustee will call and
27 supervise the holding of the meeting. This
28 operation is highly technical.

29 (b) Voting Trusts - These arrangements are common
30 where it is desired that the control of a



company and the direction of its business be vested in an individual or group. In such cases, the shares are transferred to trustees (voting trustees) who issue voting trust certificates evidencing the right of the holder to receive the shares represented thereby upon the dissolution of the trust and the surrender of the voting trust certificates. In the meantime, the holders of the voting trust certificates are entitled to such rights and benefits as are specified in the trust agreement.

(c) Escrows and Depositaries - escrow and depositary arrangements for numerous purposes are a substantial source of business and stem largely from the financial responsibility of the trust companies. They are generally very technical and require careful attention to ensure proper fulfilment.

4.08 The increased importance of equity financing has created a problem of real magnitude for most corporations -- that of effecting transfer of its shares. Shareholders and brokers expect prompt attention to transfers of ownership and the issue of new certificates. This situation is reflected in the action of most recognized stock exchanges which have amongst their rules the following as a condition of listing:

- (1) the shares being listed must be transferable in the city where the exchange is located.



(11) the transfer of listed shares must be completed within 48 hours of deposit for transfer.

These requirements, coupled with market activity and the specialized knowledge required to perform the work, can impose heavy burdens on most companies which find it more convenient to employ a trust company to do the job for them. Specialization results in lower cost and greater accuracy.

4.09 Most stock exchanges have the further listing requirement that a trust company be appointed transfer agent of the shares in question. Not only does this inspire investor confidence in the accuracy of share records; it obviates the difficulties which would arise in making deliveries if each company acted as its own transfer agent. It provides means whereby the shares of a company can be interchangeably transferred at a number of points within Canada and the U.S.A. It is estimated that during 1961 Canadian trust companies acting as transfer agents issued a total of 4,111,000 share certificates.

4.10 The principal fees earned by a transfer agent are based upon maintenance of shareholder accounts and the issue of share certificates. Where a co-transfer agent is involved, there is a charge made for daily reports to and from the principal agent.

4.11 The registration of shares is provided for as an insurance against over-issue. The essential duty of the registrar is to counter-sign a new share certificate and thus validate it only when the out-



standing stock will not be increased by the issue of that certificate.

4.12 Where the transfer agent keeps the share ledgers of a company, it is most convenient to have that agent also perform a number of related functions.

(a) Dividend Disbursing - This function speaks for itself and its importance is well demonstrated by the fact that in 1961 Canadian trust companies issued about five million dividend cheques totalling over \$463 million.

(b) Mailing of Annual Statements, Reports, Proxies, etc. -- This service is based upon the detailed information in the hands of the transfer agent who has machine equipment and other facilities available.

(c) Proxy Tabulation - Not infrequently the transfer agent is called upon to receive, examine and tabulate proxies to vote at a meeting sent in by shareholders. Again the specialized knowledge of its staff and the time factor involved make the agent's services of great value.

(d) Scrutineering at Meetings - Particularly in cases where contentious matters are to be voted upon at meetings, the trust company transfer agent is retained to record attendance at meetings and count the votes taken on all polls.

(e) Changes in Capitalization - Typical examples are partial or total redemptions of preference



1 shares, recapitalization under various plans
2 of reorganization, subscriptions for additional
3 share offerings, and share splits. In all
4 these situations, it is both practical and
5 economical for a company to employ a trust
6 company as agent.

7 The performance of all these services is based
8 upon the value of specialization. The trust companies
9 use modern special purpose equipment which would be
10 uneconomic for the individual corporation. They are
11 organized to handle irregular work loads which would
12 disorganize routine company operations. Moreover
13 they develop special techniques for dealing with the
14 typical problems which arise in shareholder services
15 and can offer companies an assurance that good share-
16 holder relations will be maintained.

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Royal Commission on Banking and Finance

General Trust Of Canada

Hearings
held at

OTTAWA

Vol.

25A

General Trust of Canada

Date.

July 16, 1962



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Toronto, Ont.



BRIEF SUBMITTED BY GENERAL TRUST OF CANADA
TO THE ROYAL COMMISSION ON BANKING AND FINANCE AS
A SUPPLEMENT TO THE BRIEF OF THE TRUST COMPANIES'

ASSOCIATION

S U M M A R Y

- 1 - While agreeing with most of the brief presented by the Trust Companies' Association, the undersigned, on behalf of one member of such Association, namely General Trust of Canada, and with the full concurrence of its Board of Directors, wishes to express minority or independent views either not reflected in the official Brief or at variance with some of its recommendations.
- 2 - The first point is the incorporation and control of trust companies by federal legislation which is taken for granted in the main Brief (items 2, 15, 19, 20, 32, 33, 34, 35). If trust companies are considered as institutions involved in the flow of funds through the capital market (paragraph (a) of the Order-in-Council appointing your Commission), the federal legislation is unconstitutional and while it is appreciated that your Commission is not concerned with problems in constitutionality, it is submitted that from a purely financial aspect on the one hand, and on the basis of "peace, order and good government" on the other, the matter ought to be clarified in order to prevent: 1) Unnecessary confusion regarding what is banking; 2) Unnecessary duplication of reports; 3) Unnecessary expenses through the setting up of a federal bureaucracy in matters not of federal jurisdiction; 3) Unwarranted intrusion of federal legislation.



1 in matters clearly of property and civil rights. The
2 reasoning on this point is set forth below and the
3 conclusions which follow are: a) That all such
4 legislation be repealed for the future and the federal
5 government desist from the incorporation and control
6 of trust companies as such; b) That if it be found that
7 trust companies are actually carrying on operations
8 falling within the field of banking, or interest, any other
9 proper federal jurisdiction, their activity be regulated
10 as such and not through an erroneous assumption of
11 jurisdiction over trust companies.

12 3 - A second matter consists in the control of
13 trust companies by banks, whether chartered banks or
14 savings banks, which has been allowed to develop in
15 the past and on which the main Brief is silent, while
16 the appendix (nos. 1.55 and 1.56) takes the view that
17 such a control is unobjectionable. The undersigned
18 is very strongly of the opinion that such a control is
19 improper as regards the principles of liquidity of the
20 banks, the good management of the trust companies, and
21 the public interest in general regarding combines.
22 For reasons given in detail further on, it is the
23 undersigned's recommendation that: a) Any such possible
24 control be prohibited in the future through a special
25 provision in the Bank Act; b) Any such control already
26 acquired be disposed of within a time limit to be set
27 in the Act; c) Similar restrictions be imposed on
28 federally-incorporated finance companies, loan companies
29 and insurance companies.

30 4 - The third principal point regards the activities



1 of the federal government in the annuity field. This
2 has been a matter of concern to insurance companies
3 in the past and should be one for trust companies in
4 the future owing to the importance of annuities for
5 actual pensioners. The undersigned strongly supports
6 the stand taken by the Association (item 40 of the main
7 Brief) that insurance companies ought not to administer
8 pension contributions in the same manner as trustee
9 pension funds. However, they might and should continue
10 to be interested in selling annuities both under company
11 pension plans and registered personal retirement plans.
12 In this respect it seems hardly justified that government
13 run an annuity service at a loss through advertising,
14 subsidies, etc, in competition with taxpaying institutions.
15 The recommendations in this respect are that a) The Federal
16 Government abandon the annuity field altogether; b) That
17 it dispose of its portfolio in that respect to private
18 institutions, guaranteeing whatever excess obligations
19 it may have taken in the past.

20 5 - The other items of this minority submission can
21 be set forth more shortly as dissents.

22 6 - We dissent from the suggestion that a secondary
23 market on mortgage loans ought to be maintained by
24 Central Mortgage and Housing Corporation (item 25 of the
25 main Brief).

26 7 - We do not agree that a fixed rate of interest
27 for loans made by banks should be replaced by a free
28 or higher rate (item 18 of the main Brief).

29 8 - We do not agree that any scheme of deposit
30 insurance would be acceptable if imposed on all

1 institutions taking deposits (item 30 of the main Brief).
2 9 - We do not agree that it is advisable to raise
3 the limitation on pension plans' income from foreign
4 countries (item 39 of the main Brief).
5 10 - We do not think that the setting up of regular
6 consultation between the Minister of Finance and the
7 representations of the Trust Companies Association is
8 necessary or would be particularly useful (item 47 of
9 the main Brief).

10
11 FEDERAL LEGISLATION ON TRUST COMPANIES

12 11 - The importance of this matter arises from the
13 fact that if the Federal Government has authority in
14 this field, it could very well grant to banks, or to
15 any other company, the right to carry on trust business
16 as a matter of course or on such conditions as it would
17 deem proper.

18 12 - This would run counter to the established fact
19 and policy that all provinces refuse to grant such
20 powers to any ordinary company. They do so because
21 trust business is not actually a business, but a public
22 service much more akin to a profession and which must
23 be regulated as such.

24 13 - In the same manner as professions fall within
25 the field of property and civil rights, so also the
26 discharging of trusts is the activity of specialized
27 companies.

28 14- Actually, trust companies can be likened to
29 officers of the courts in the matters of trusteeship,
30 executorship, guardianship, committee, judicial
advisers, etc. These functions are the essence of the



1 trust companies' business as shown by the definitions
2 contained as well in the Trust Companies' Act (federal),
3 the Ontario Trust Companies' Act, the Province of
4 Quebec Trust Companies' Act, etc.

5 15 - There is no doubt whatsoever that trust and
6 trustees are a matter of property and civil rights.
7 A matter of property, since it is of the essence of a
8 trust that the trustee hold some property to the benefit
9 of another, as generally expressed through the statement
10 that he holds the legal title, ownership or estate,
11 while the beneficiaries hold the beneficial title,
12 ownership or estate. It is also a matter of civil rights
13 since trusts are of everyday occurrence and to be found
14 mostly in cases of relationship between heirs and
15 legatees, donees, creditor and debtor, depository or
16 bailee, agency and administration, etc.

17 16 - Although decisions of the Privy Council on the
18 matter of the constitution of companies seem to have
19 construed the B.N.A. Act as if the Federal Government
20 had jurisdiction on the creation of companies having
21 as their object the carrying on of their business in
22 more than one province, this was done as a consequence
23 of the erroneous construction of article 92, section 11,
24 of the B.N.A. Act regarding the constitution of companies
25 for provincial objects, which was read as if a provincial
26 object was an object to be carried out in the single
27 province of incorporation. This construction was
28 condemned by the Supreme Court in the reference on
29 companies and indirectly abandoned by the Privy Council
30 in the case of the Bonanza Gold Creek Company v. The King,



1 and can no longer be maintained, it being admitted that
2 provinces can create companies which have the powers
3 of natural persons and are capable of being authorized
4 to act as such in other jurisdictions. If the same
5 basis be given to the federal authority to create companies,
6 one is left with the statement that federal government
7 could give to a company constituted by it the powers
8 of a natural person.

9 17 - This, however, while sufficient in the case of
10 trading companies, which is the sole one decided by the
11 courts up to now, is clearly insufficient for trust
12 companies for two principal reasons:-

13 18 - The first one is inherent in the nature of
14 companies or corporations which have always been held
15 by the courts to be unable as such to fulfill the
16 functions of trustees herein above described as general
17 trust companies. On this point one may consult Blackstone's
18 Commentaries, vol. 3, pp. 475 et s., and the authors
19 in general on the disabilities of corporations. Article
20 365 of the Civil Code adopted by the Legislature of
21 United Canada in 1866, states the point very closely
22 as follows:-

23 " In consequence of the disabilities which arise
24 from their corporate character, they can neither
25 be tutors nor curators, nor can they take part
26 in meetings of family councils.

27 They cannot be entrusted with the execution
28 of wills or any other administration which
29 necessitates the taking of an oath, or imposes
30 personal responsibility.



1 They cannot be summoned personally, nor
2 appear in court otherwise than by attorney.

3 They cannot sue nor be sued for assault,
4 battery or other violence to the person.

5 They cannot serve as witnesses nor as
6 jurors before the courts.

7 They can neither be guardians nor judicial
8 sequestrators, nor can they be charged with
9 any other functions or duties the exercise of
10 which might entail imprisonment".

11 19 - It seems very clear that these disabilities
12 which attach to juridical persons can not be covered
13 by the mere fact of incorporation and therefore no
14 federal government could give powers to any entity
15 of its own creation. The sole authority capable of
16 doing so is the one which has jurisdiction over the courts
17 and on property and civil rights since all of the
18 disabilities above mentioned fall within that category.

19 20 - The second reason is implicit in what has
20 already been said, namely that trust companies must be
21 considered as corporations discharging a public service,
22 namely the execution of trusts and are entitled to do
23 so solely because they are held by themselves and by the
24 State as companies or institutions in which the public
25 may have confidence for the discharge of duties which
26 are entrusted in ordinary life only to persons having
27 moral character, financial solvency, intellectual ability
28 and business experience in the management of private
29 affairs. The safeguards which the courts exercise
30 through their power to summon natural persons before them



1 and submitting them to penalties (equity acts in personam
2 not in rem) must be compensated by some other conditions
3 and safeguards which have to be determined by the
4 Legislator.

5 21 - If the above reasoning is correct, as we believe
6 it to be, it becomes clear that the federal government
7 may not constitute trust companies as a matter of course
8 and may not do it by special act through imposing on
9 them any conditions which may be at variance with the
10 requirements of the provinces.

11 22 - Even should the reasoning be disregarded in
12 so far as the creation of trust companies is concerned
13 (which would leave the situation regarding companies
14 in the chaotic state it is at present), such reasoning
15 would still apply to the restrictions and limitations
16 imposed by federal legislation to trust companies of
17 its own creation and the preservation of such
18 legislation would have the effect of creating
19 dissimilarities between provincial and federal legislations,
20 such companies being at a disadvantage on that basis.

21 23 - It seems abundantly clear that the best solution
22 would be for the provincial supervisory authorities
23 to get together on this matter, much more so than in
24 the case of insurance which is the nearest one to that
25 under examination.

26 24 - It is therefore submitted:-

27 a) That the activities of trust companies
28 are specifically determined by the trustee
29 relationship and as such are within the exclusive
30 competence of the provinces;



b) That since it is always possible to exceed one's powers, it may arise that some powers given by legislatures to trust companies be actually banking powers and if so ultra vires of the legislatures;

c) That the granting of such powers has not the effect of converting trust companies into banks, but may make them subject to federal jurisdiction over banking;

d) That, in consequence, the federal government would have to legislate not only on banks, but also on banking as such, thereby either giving a definition of banking which would stand the test of the courts and of practice, or to legislate on some matters which would evidently be or would eventually be declared by the courts within the subject matter of banking;

e) That no evidence has been adduced to show that trust companies actually do carry on any activity falling within the field of banking, unless it be the receiving of deposits, the use of so-called chequing privileges by the depositors and the clearing facilities afforded trust companies by the banks, all three of which are not, either singly or collectively, banking operations.

25 - It is therefore submitted that the setting up of a branch within the federal Department of Insurance to supervise trust companies is a direct



1 consequence of a faulty theory regarding the creation
2 of trust companies by federal authority, which entails
3 additional expense by the federal government in
4 excess of the expense already supported by the
5 provinces which are charged under the Constitution
6 with the proper supervision of the courts and of
7 trusts.

8 26 - While it is permissible to believe that a
9 single authority having jurisdiction across Canada
10 would assure a greater uniformity in trust practice;
11 this is an undue and unrealistic simplification. The
12 actual facts are that trusts in the Province of Quebec
13 are seen very differently from those in the other
14 provinces because Quebec law on the matter is quite
15 different. In the words of the Privy Council "it
16 must be remembered that the law of trust is not
17 innate in the law of Quebec". One must realize that
18 the assignment of the jurisdiction on property and
19 civil rights to the provinces is a safeguard demanded
20 by the Province of Quebec before joining Confederation
21 and which must be a paramount consideration for not
22 trying indirectly to modify such allocation of powers.

23
24 CONTROL OF TRUST COMPANIES BY BANKS

25 27 - Control of trust companies by banks has been
26 allowed to develop within the last few years, directly
27 or indirectly. It is the contention of the under-
28 signed that such control, however realized, is
29 improper as regards the good of the bank, the good
30 of the trust company concerned and the good of the



1 public.

2 28 - As regards the bank which invests part of
3 its capital or surplus in the acquisition of the
4 control of a trust company, the main objection touches
5 on the liquidity of the assets. While there does not
6 seem to be a prohibition in the Bank Act as presently
7 drawn to prohibit a bank from acquiring the control of
8 any sort of company, it seems evident to us that
9 some companies may not be so acquired, namely all those
10 which are considered by government as being of public
11 order, to wit, amongst others, railways, insurance
12 companies, public utilities and trust companies. The
13 reason is implicit in the fact that banks are also
14 of public order and to be regulated as such. A bank
15 must have assets of the highest liquidity, not only
16 within the limits of the provisions of the law in
17 that respect, but also within the usual practice
18 developed over the years through prudent management.

19 29 - It is abundantly clear that no bank should
20 invest the money of its depositors in such a purchase.
21 It is also abundantly clear that as its own assets
22 are concerned, inasmuch as they may be distinguished
23 from those covering its liabilities to the public, the
24 same rule should apply, since those assets of the
25 shareholders are the guarantee of the liabilities.

26 30 - This is the reason why banks are not permitted
27 to hold real estate for other than their own use and
28 occupancy, or mortgages for more than a definite
29 ratio of their assets, nor to hold indefinitely assets
30 which they might acquire upon realizing on a security.



31 - The purchase of a trust company would have the effect of freezing a good part of the assets of the bank and to withdraw from the general market the stock of the trust company, whether listed or unlisted, with the result that should the bank eventually be called upon to dispose of such stock, a new market would have to be created altogether and the probabilities would be that such stock would pass in its entirety to some other large institution. This has the definite effect of narrowing the market and the possibilities for investment.

32 - The reason why banks have purchased or set up control of trust companies seem to be threefold. The first is a development of a close relationship between the directors of banks and trust companies. The second is the example of other countries. The third is the more recent opening of branches by trust companies for the receipt of chequable deposits.

33 - As regards the close association of interests between trusts and banks, it is precisely through some such catch-sentence that unwarranted conclusions are often reached by forgetting where to stop. It is not denied that groups do exist in financial matters as in any other field of economic activity. In the same way tradition plays a large part in the habits of a community and of a savings public. Regional interests also play a great part in keeping financial communities together. Trust companies being large holders of securities and cash, it is normal that their directors be interested in the good management



1 of the banking institutions with which they deal and,
2 vice versa, that banks be interested in keeping
3 such goodwill with the result that there may very well
4 be some interlocking of directorships. Similarly
5 it may happen that persons with bank experience be
6 found very useful to trust companies in given
7 circumstances or that banks may wish to secure the
8 services of some trust company man.

9 34 - All of these arguments merely show that persons
10 directly interested in finance, such as bank directors,
11 are also interested in good management of capital
12 assets belonging either to themselves or to others,
13 such management being provided by trust companies.
14 The latter may be considered as professional
15 administrators and therefore as intermediaries between
16 the professions (lawyers, notaries, accountants, brokers,
17 investment counsels, etc., all of whom they do employ
18 and must have resort to), and purely financial
19 institutions such as banks, investment trusts,
20 insurance companies, stock exchanges, etc. No one
21 could possibly argue from that basis that the banks
22 could or should fulfill the functions of all other
23 financial institutions or, for that matter, could
24 impose on anyone of their clients the use of some
25 specialized intermediary.

26 35 - It is true, and this is the second argument
27 invoked, that banks operate trust departments in
28 some other countries. However none of these know
29 a so highly concentrated banking system as Canada.
30 Furthermore, none has the same constitutional



1 distribution of authority. Thirdly, the history of -
2 the development of trust business in each one of them
3 shows that in principle it is considered preferable
4 to hold the two entirely separate. This is
5 demonstrated in effect both in England and the United
6 States by the fact that trust departments are actually
7 managed separately, do not exist in other than large
8 cities, and do not employ people with similar qualifi-
9 cations. All references to department store principles
10 are therefore irrelevant.

11 36 - The third reason for the purchase of such control
12 is the opening of branches by trust companies for the
13 receipt of chequable deposits. This is fully dealt
14 with in the main Brief of the Association as justified
15 on the part of trust companies. If the competition
16 thus afforded to the banks is sound, it ought not to
17 be lessened through the desire of the latter to reduce
18 such competition indirectly, although such reducing
19 would have the effect of diminishing the outlay.

20 In fact, the business carried on by the trust companies
21 at such branches consists mostly of taking in deposits,
22 dealing in real estate as brokers and mortgagees and
23 discussing wills with prospective clients. The two
24 latter activities are clearly without the banking
25 field and one is thus left solely with the receipt
26 of deposits.



1 37 - Such control we also consider to be bad
2 for the management of trust companies as regards the
3 three main divisions of the trust companies' activity.

4 38 - As regards the trust and agency department,
5 the objections may be summarized as follows:

- 6 a) Executors and trustees are the agents
7 of the testator in the same way as the
8 trust companies, acting under a living
9 trust or a mere agency, are servants of
10 the client, this kind of relationship
11 being quite different from that between a
12 bank manager and the bank's clients;
- 13 b) As already mentioned, a good number
14 of trust officers must have had some
15 training in law, which is not required for
16 banking;
- 17 c) The training of a prudent administrator
18 includes knowledge regarding real estate,
19 mortgages, stocks, etc., which is not re-
20 quired from a bank employee;
- 21 d) Any further centralizing of institutions
22 would tend to use trust companies as
23 retirement field for old bank employees,
24 thereby making for less efficiency;
- 25 e) The special case of the Province
26 of Quebec, with its differences in law,
27 shows that separate training should be
28 secured, which would prevent an easy move-
29 ment between any trust department of a
30 bank and its other departments, thus pin-



pointing the difficulties.

39 - As regards corporate trusteeship, the objection is still stronger since the likelihood of conflict of interest is ever present. At the time of a bond issue, when a trustee should be appointed for bondholders, the borrowing corporation selects the trustee in accord with the investment dealer who, sometimes, insists on his own choice. It would be a temptation on the part of a bank to try and have its own trust company selected as trustee for the bondholders. This would not be sound practice whenever the bond issue is effected for the purpose of funding a debt previously owing to the bank. Generally speaking, it is not good nor normal that the relationship of the money lender with the borrower remain too permanent.

40 - Should there be a default under the terms of the Trust Deed, the trustee for the bondholders is called upon to take possession of the property, since the whole concept of the bond trusteeship security in favour of the bondholders is to transfer all the property of the borrowing corporation, save only such security as has been transferred or granted specifically to some creditors amongst which are the banks. Therefore, the banks are generally amongst the creditors, side by side with the bondholders on the one hand and the unsecured creditors on the other, the bank holding a middle position for having some guarantees under the Bank Act which do not cover the whole of its advances. The corporate trustee is therefore under an obligation to act against the interests of the bank to a certain



1 extent, and, at the same time, to deal with it for the
2 continuation of the operations of the company
3 (liquidating the inventory, finishing goods not completed,
4 collecting bills, etc.). A trustee in possession under
5 a bond trusteeship must be fully impartial and may not
6 forget the interests of the other creditors (sometimes
7 represented by a trustee in bankruptcy), to which
8 it must also account. One needs little experience to
9 imagine the discussions which sometimes do take place
10 and which would become probably more difficult should
11 the trust officer become too earnest as against a bank
12 manager, or too lenient with consequent loss of
13 confidence by the investing public. It seems
14 quite evident that the conflict of interest is a
15 paramount consideration in this case.

16 41 - Other disadvantages would arise as regards
17 deposits made with a trust company. At the present
18 time, they are generally accepted as term deposits
19 and the proceeds invested in medium term securities, the
20 trust company keeping only a certain ratio within the
21 short term field. This makes for a widening of the
22 market, a greater specialized knowledge and a stabilizing
23 effect as against booms and depressions. While it is
24 admittedly difficult to draw the line between short term
25 and middle term securities, such a blurred area exists
26 in all distinctions between things, services, pro-
27 fessions and specializations. To try and wipe out this
28 blurred area is an impossibility. It is therefore
29 quite proper that trust companies have some interest
30 in the short term market, while the banks have some



1 interest in the middle term one. However, those
2 demand deposits cannot be equated to anything but
3 a savings account. As for guaranteed deposits, they
4 are trust accounts and must be balanced dollar for
5 dollar by actual investments within a restricted
6 field.

7 42 - What is to be feared is that some transfers
8 be made between the ordinary investment department
9 of a bank and its trust department and since no
10 examination of books can be permanent, this would
11 certainly give rise to a number of temptations.

12 43 - Generally speaking therefore, in the
13 interest of the public at large, trust companies and
14 banks ought to remain separated. Their joining through
15 the control of a trust by a bank would enable or tempt
16 the banks to do indirectly what they are not allowed
17 or might not be allowed to do direct. In the field
18 of public institutions, the principle of specialization
19 should be strictly adhered to. Moreover, should there
20 be an outright attempt at merger between trust
21 companies and banks, the power resulting in the hands
22 of few people, that is to say the directors of a bank,
23 would be tremendously enhanced and all arguments against
24 gigantism resulting in anti-trust laws would be in point.
25 At the present time, the Canadian situation happily
26 does not give rise to this claim but the danger would
27 become imminent if banks are to purchase all of the
28 large trust companies.

29 44 - In the matter of the investments made by the
30 trust companies, the assets are, if not entirely, frozen,



1 but certainly long term assets corresponding with
2 the long term obligations of pension funds, estates,
3 etc. On the other hand all the assets of a bank
4 should be channelled in the growth economy of the
5 country. It is irrelevant to say that the close
6 association between banks and trust companies has
7 had no bad effect in the past. The phenomenon of
8 trust companies controlled by banks is a very recent
9 one and the results up to now cannot be significant.

10 45 - It seems quite clear that in the same way
11 as it is advantageous for bank stocks to be widely
12 spread amongst the public, the trust company stocks
13 should similarly be widely distributed.

14 46 - Similarly, although some modifications
15 of the income tax provisions regarding reserves ought
16 to be adopted, the situation of banks in that respect
17 permits them to cover losses which would not be allowed
18 to trust companies because, in the nature of things,
19 commercial banks are doing a more risky business
20 than trust companies ought to do.

21 47 - For all the above considerations, it is
22 submitted that any possible control of trust companies by
23 banks be prohibited in the future through a special
24 provision in the Bank Act and that any such control
25 already acquired be disposed of within a time limit
26 to be set in the Bank Act, whether this be done through
27 a distribution of the shares within the hands of the
28 shareholders of the bank or through an outright sale,
29 depending on circumstances, although the second
30 alternative would seem to be the only one feasible.



48 - One might add that a similar provision should be inserted prohibiting banks to acquire the control of insurance companies, finance companies and perhaps loan companies.

GOVERNMENT ANNUITIES

49 - This question has been raised frequently by the insurance companies and very little need be added. Statistics have shown during long periods that government annuity service provided by the federal government was functioning at a loss. This was a result of the rate of capitalization used, of the transfer of funds from the consolidated revenue fund and of the expenses incurred in publicity to sell this service to the public.

50 - While it might have been claimed in the past that the federal government was thereby fulfilling a function of teaching the saving habit to the population, one must add that this has changed altogether with the creation of pension funds and the establishment of personal retirement funds, so that the need no longer exists of educating the public. Actually tax incentives have proven the better teacher.

51 - Since both insurance companies and trust companies have normally come to be asked to provide the service and the payment of annuities, the governmental service has proven to be of less importance. On the one hand the maximum amount purchasable from the federal government had to be raised and is still insufficient, so that private funds and companies are called upon to supply the excess. The



1 rates have, in consequence of volume, become quite
2 competitive and added publicity would be required to
3 maintain the service. Such a publicity out of public
4 funds is not to be looked at favourably. The big
5 question at the present time is whether it is more
6 advantageous for eventual pensioners to get capitalization
7 of income from a trustee pension fund with possibility
8 of transfer, or through the purchase of some deferred
9 annuity from an insurance company. Actually, the risk
10 during the period of capitalization is minimized and
11 the benefits maximized through trustee pension fund.
12 At the time of retirement, the risks would seem to be
13 minimized and the benefits maximized through the
14 purchase of an immediate annuity.

15 52 - I It is therefore urged that the government
16 abandon the deferred annuity plan and that very serious
17 consideration be given to its getting out of the
18 immediate annuity plan.

19 53 - In order to liquidate the situation, it
20 would seem but normal that the federal government
21 dispose of its portfolio to private institutions,
22 guaranteeing only whatever excess obligations it might
23 have taken in the past over the actuarial calculations.

24 SECONDARY MARKET ON MORTGAGE LOAN

25 54 - It is urged in the main brief of the Trust
26 Companies' Association that such a secondary market
27 be provided through Central Mortgage and Housing
28 Corporation. Our dissent is based on the fact that
29 such a public corporation could not provide the market
30 otherwise than through additional governmental subsidies



1 and allocations. While this would work to the advantage
2 of all large mortgage holders of both private and
3 C.M.H.C. guaranteed mortgages, it seems to the under-
4 signed that this is but a result of a situation which
5 has been allowed to develop haphazard.

6 55 - Firstly, one might question the opportunity
7 of letting commercial banks enter the mortgage market
8 to the extent they have. It has made possible a
9 general trend towards raising the rate of interest on
10 mortgages and tempting the banks to get higher return
11 on their commercial loans, a point which is to be
12 covered under the next heading.

13 56 - Secondly, the demand for a secondary market
14 merely arises from the fact that the terms of the loans
15 have become too long and have tended to distinguish
16 too radically between insured mortgages and conventional
17 ones. It would appear that mortgage loans devised to help
18 construction could very well have been figured on a
19 long term basis, say thirty years, but with some
20 provisions that their term would end, in so far as the
21 guarantee of government is concerned, after a shorter
22 period, say fifteen years or twenty years at the most.
23 This would have had the result of throwing more mortgages
24 into the conventional field with a consequent lowering of
25 the rate of interest.

26 57 - Should such a revision take place, the need
27 for a secondary market would disappear to a large
28 extent. Actually this need arises also from the fact
29 that such mortgages are the counterpart of short term
30 deposits which may be recalled by the depositors. As



1 a temporary or adjustment provision, it would seem
2 preferable to allow C.M.H.C. mortgages to be the
3 basis of loans made through the commercial banks in
4 favour of trust companies, pension funds or insurance
5 companies. In point of fact pension funds and insurance
6 companies would hardly need these facilities. As
7 to trust companies, they might have a need for them
8 but there does not seem to be any good argument against
9 a special authorization being given in that respect in
10 the Bank Act, in the same way as loans are therein
11 authorized to special classes of borrowers.

12 58 - This shortening of the building loans
13 would have a triple effect. It would turn over to
14 private investors reasonable loans on already improved
15 property and private residences or medium priced property.
16 It would permit trust companies, pension funds, insurance
17 companies, etc., to concentrate to a larger extent
18 on larger units where individuals cannot supply the
19 necessary funds unless being grouped. It would also
20 unfreeze some of the assets of the banks.

21 RATE OF INTEREST ALLOWED BANKS

22 59 - Item 18 of the main brief suggests that
23 the rate of interest for bank loans presently fixed at
24 6% should be replaced by a free or higher rate. We
25 are unable to see the wisdom of this suggestion.

26 60 - In the first place, it seems that a
27 ceiling should be placed on the rate which banks may charge
28 for loans. That this rate as presently set is said not
29 to be consistent with the conditions across Canada
30 does not seem a good objection, since the providing of



1 money and credit is the main justification of banks as
2 a service to the public. Thus it does not seem sound
3 policy to let the free play of offer and demand regulate
4 such a rate.

5 61 - To fix the rate higher than at present would
6 require a great deal of demonstration before it could
7 be admitted. In fact the role of the Bank of Canada
8 would be greatly diminished if the rate would be
9 allowed to increase and decrease according to
10 the policies of the central bank. The likelihood would
11 be that there would be a built-in resistance to lowering
12 in most cases and a powerful demand for increasing
13 at inopportune times. One need only refer to the
14 present economic situation. The only reasonable
15 alternative would seem to be the possibility of a
16 fixing of the rate through an act of parliament as
17 need arises. This would certainly be less stable
18 than the present system of the revision of the
19 Bank Act at regular intervals. However, we do not
20 see how the rate could be increased at the present
21 time.



DEPOSIT INSURANCE

62 - The main Brief has shown the opposition of the Association to deposit insurance with a statement that it would not be opposed if imposed on all institutions taking deposits.

63 - It is felt that this stand is not sufficiently strong as regards the principle involved. We have already mentioned the quite peculiar set-up of the banking system in Canada and the main Brief gives full particulars as regards deposits received by the several institutions. What strikes us most forcibly is the unnecessary pyramiding of expenses on depositors and lenders through additional insurance in favour of lending institutions or the general public. Normal prudence and supervision should be sufficient to guarantee the reimbursement of deposits without such increase in expenses. This would seem to be a matter of general public policy which the main Brief does not sufficiently underline in our opinion.

INVESTMENT OF PENSION FUNDS IN FOREIGN
SECURITIES

64 - We are opposed to the possibility of investing pension funds in foreign securities over a very limited ratio. At 10% as at present, this ratio seems to us ample for all requirements. Again, as a matter of principle, there is no good reason why money earned in Canada and to be spent in Canada should be invested, even temporarily, in securities of another country. All arguments must fall before the objection that cash pension funds are allowed to be built through



1 a tax incentive, being tax exempt. While one might
2 say that the purchase of foreign securities can secure
3 U.S.A. dollars, one could argue on the contrary that
4 they would be much better employed through the
5 purchase of Canadian securities in order to replace
6 the holdings of foreigners. The important thing in
7 this respect would seem to us to be the favouring
8 of the purchase of common stocks in Canadian companies.

9 65 - It has been alleged that diversification is
10 better served through some reasonable foreign holdings.
11 Here again the answer is a question of public policy
12 and of the common good of the country, instead of
13 the common good of the future pensioners. Actually
14 the latter are and ought to be more concerned with
15 the stability of the Canadian economy than with any
16 other consideration.

17 66 - It is submitted therefore that not only
18 should the exemption not be increased, but that
19 a thorough consideration be given to the advisability
20 of limiting the purchase of foreign government
21 securities as holdings for pension funds and trust
22 funds as well.

23
24 CONSULTATION WITH THE MINISTER

25 67 - The last recommendation of the Trust Companies
26 Association's Brief refers to a possible recurrent
27 consultation between its representatives and the Minister
28 of Finance. It is not denied that this would be
29 highly advantageous to the trust companies and their
30 clients.



1 68 - However, it seems to us that this begs a
2 number of questions. The first is the actual role
3 of the trust companies in the economy, the second,
4 the actual jurisdiction over such trust companies, and
5 the third one, the indirect influence which the
6 Minister of Finance may have on the economy.

7 69 - It would seem to us that the normal channelling
8 should be through the Bank of Canada and the banks
9 and not otherwise. The Minister of Finance ought to
10 keep out of such feelers as may be deemed advisable
11 by the Bank of Canada. At the same time, should
12 the Minister deem it advisable to call a meeting of
13 trust companies' heads, he is always at liberty to
14 do so, but would not go to such a length in the absence
15 of very special circumstances.

16 70- What is feared is an indirect attempt at
17 controlling the economy through institutional features
18 instead of giving more leeway through the natural
19 forces of action and reaction. There does not seem
20 at the present time to be any special call for the
21 setting up of such a consulting body or scheme, which
22 is in no way detracting from the willingness of all
23 trust companies' officers and the undersigned in
24 particular to help to the utmost in the pursuit of
25 the common good of the country.

26
27 MARCEL PARIBAUT

28 President and General Manager
29 General Trust of Canada

30 July, 1962.

